INDEX
175 150 125 100 75 50 25 0

BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS JUNE 20, 1959

Harold E. Churchill's formula for Studebaker-Packard Corp. and for its cars: Nothing big, nothing complicated. (Companies)

in BUSINESS this WEEK June 20, 1959

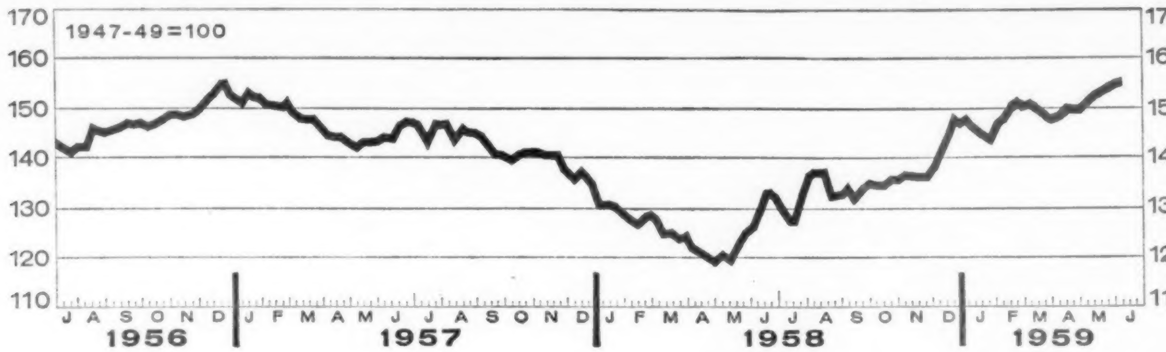
GENERAL BUSINESS

THE DEPARTMENTS

BUSINESS WEEK is published weekly by McGraw-Hill Publishing Co., Inc., 330 W. 42nd St., N. Y. 36, N. Y. Second Class Postage Paid at N. Y. 1, N. Y., and at Albany, N. Y. Subscriptions $6 a year in U. S. A.

NUMBER 1555

FIGURES of the WEEK



	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**133.3**	**133.3**	**153.1**	**†155.0**	***155.8**
PRODUCTION					
Steel ingot (thous. of tons)	2,032	1,751	2,644	†2,604	**2,631**
Automobiles and trucks	132,806	105,566	172,659	162,200	**165,090**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$52,412	$80,033	$70,752	$86,365	**$89,752**
Electric power (millions of kilowatt-hours)	10,819	12,109	12,684	13,023	**13,503**
Crude oil and condensate (daily av., thous. of bbls.)	6,536	6,335	7,178	7,032	**7,010**
Bituminous coal (daily av., thous. of tons)	1,455	1,288	1,392	1,405	**1,421**
Paperboard (tons)	247,488	290,704	322,778	295,007	**330,025**
TRADE					
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	70	58	66	65	**64**
Carloadings: all others (daily av., thous. of cars)	47	44	47	49	**50**
Department store sales index (1947-49 = 100, not seasonally adjusted)	121	135	158	122	**150**
Business failures (Dun & Bradstreet, number)	198	254	311	314	**295**
PRICES					
Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	412.8	399.7	386.6	390.5	**389.0**
Industrial raw materials, daily index (BLS, 1947-49 = 100)	89.2	81.6	91.5	92.5	**92.3**
Foodstuffs, daily index (BLS, 1947-49 = 100)	90.5	91.1	82.9	81.9	**82.0**
Print cloth (spot and nearby, yd.)	19.8¢	17.4¢	19.0¢	19.3¢	**19.5¢**
Finished steel, index (BLS, 1947-49 = 100)	143.9	131.5	186.7	186.7	**186.7**
Scrap steel composite (Iron Age, ton)	$36.10	$35.50	$34.17	$37.50	**$38.17**
Copper (electrolytic, delivered price, E & MJ, lb.)	32.394¢	25.220¢	31.560¢	31.555¢	**31.505¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$2.34	$1.98	$2.04	$1.99	**$1.99**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	**33.77¢	34.80¢	34.62¢	34.60¢	**34.54¢**
Wool tops (Boston, lb.)	$1.96	$1.65	$1.78	$1.81	**$1.82**
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	31.64	45.09	58.22	57.09	**57.04**
Medium grade corporate bond yield (Baa issues, Moody's)	3.59%	4.54%	4.96%	5.03%	**5.03%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	2–2⅛%	1½%	3½%	3¾%	**3⅞%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	57,848	57,100	56,184	56,054	**57,387**
Total loans and investments, reporting member banks	84,642	93,534	95,384	94,452	**94,700**
Commercial and agricultural loans, reporting member banks	24,180	29,790	31,587	31,614	**31,856**
U. S. gov't guaranteed obligations held, reporting member banks	33,275	31,216	29,675	28,538	**28,453**
Total federal reserve credit outstanding	26,424	25,440	27,563	27,650	**27,736**

MONTHLY FIGURES OF THE WEEK

		1953-55 Average	Year Ago	Month Ago	Latest Month
Housing starts (in thousands)	**May**	101.5	108.5	137.0	**134.0**
Personal income (seasonally adjusted, in billions)	**May**	$296.1	$351.4	$373.2	**$376.2**
Farm income (seasonally adjusted, in billions)	**May**	$16.0	$19.0	$17.3	**$17.2**
Bank debits (in billions)	**May**	$158.1	$195.1	$226.4	**$216.0**
Wholesale prices (U. S. Dept. of Labor BLS, 1947-49 = 100)	**May**	110.4	119.5	120.0	**119.8**

** Preliminary, week ended June 13, 1959.*
† Revised.
†† Estimate.
*** Ten designated markets, middling 15/16 in.*
§ Date for 'Latest Week' on each series on request.

THE PICTURES—Cover—Grant Compton; 26—Jack Fuller; 28—Richard Green; 30—W.W.; 32—John Hillelson Agency; 33—(top) McGraw-Hill World News, (bot.) John Hillelson Agency; 48, 49, 52—Ed Malsberg; 68, 71—Grant Compton; 96—Carl Vermilya; 97—(top) Carl Vermilya, (bot. lt.) David Falconer, (bot. rt.) Marshall Lockman; 98—Oregonian; 99—(top) Carl Vermilya, (bot.) Boeing Airplane Co.; 105—(top & bot. rt.) Culver Service, (bot. lt.) Bettman Archieve; 108—(top lt. & rt.) Bettman Archieve, (bot., Culver Service; 126—(top) Grant Compton, (bot.) Studebaker-Packard Corp.; 127—Grant Compton; 139—Jay Leviton; 140—W.W.; 145, 147—General Electric Co.; 148—Paris Match From Pictorial Parade; 152—Pictorial Parade; 153—(top) Black Star, (bot.) Pictorial Parade; 154—(top lt.) Black Star, (top rt. & bot. lt.) W.W., (bot. rt.) Pictorial Parade; 175, 177—Herb Kratovil; 190—(top) U.P.I., (bot.) Doak Aircraft Co.; 192, 193—Herb Kratovil; 201—A. A. Smyser; 202—Grimson Color Inc.

B.F.Goodrich

Gas pipe leaps over a river

B.F.Goodrich improvements in rubber brought extra savings

WHEN that bridge lifts to let boats pass underneath, a pipeline carrying natural gas across it has to stretch 30 feet at each end. Flexible metal tubing was first used to span the gap, but the constant bending weakened the metal, caused the tubing to break. Some lasted two years, others broke down in only six months.

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For over two years the B.F.Goodrich hose you see hanging from the bridge (above arrow) has been stretched out on the average of 20 times a day as the bridge is raised and lowered. It still shows no sign of wear, is expected to last at least five years.

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BUSINESS WEEK • JUNE 20, 1959 • NUMBER 1555

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READERS REPORT

Robbing Peter

Dear Sir:

I was very much interested in the calm announcement on your Washington Outlook page [BW—May23'59,p41] reading "Tax-exempt income may be abolished." If this is in the realm of probability it would surely deserve some headlines and trumpets! There is, no doubt, a strong sentiment in Congress to kill this tax exemption as there are strong sentiments in Congress this year to do a lot of things which might not be for the good of their constituents.

It seems to me that abolishing tax exemptions on state and local obligations would meet with tremendous and possibly successful resistance from all state and municipal authorities. If the exemptions were removed, wouldn't the rates have to move up to meet competition from high grade corporates and federal corporations? Looks like a "Robbing Peter to pay Paul" deal. . . .

J. P. CALDWELL
CHARLOTTE, N. C.

Unions—Stay Out

Dear Sir:

With regard to your article Strikes that Hit the Public [BW—May23'59,p151].

Walkouts in New York hospitals and New Jersey Utility revive the question of how to protect the innocent bystander without curbing the freedom of labor, business.

Solution: Have the unions stay out of places where they are not wanted.

F. R. PROSER
CINCINNATI, OHIO

Mechanized Mailman

Dear Sir:

You can automate the hell out of the postal system [BW—Apr.25'59,p166], but you won't see any big results until something is invented to take the place of the postman trudging door to door to deliver the mail as he has been doing for many generations.

Some sort of a "mechanized mail call" or locked boxes on street corners might merit some consideration. A little walk to the corner might stir up a lot of sluggish blood streams . . .

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and Institutions
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There are few sharp divisions here between farm and village and city. City workers can live on farms . . . farmers can spend their evenings in the city . . . pleasure spots are only a hoot and a holler away.

Yet within a short drive through this area are makers of chemicals . . . builders of machine tools. Here are produced many things from ships to beeswax, from automotive parts to children's storybooks. Turnpikes and railroads, airports and busy lake ports open the markets of the world for these products.

Few areas offer so many advantages for living, education, industry and commerce as The Center of Industrial America . . . so well served by the Ohio Edison System.

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Ohio *Edison* System

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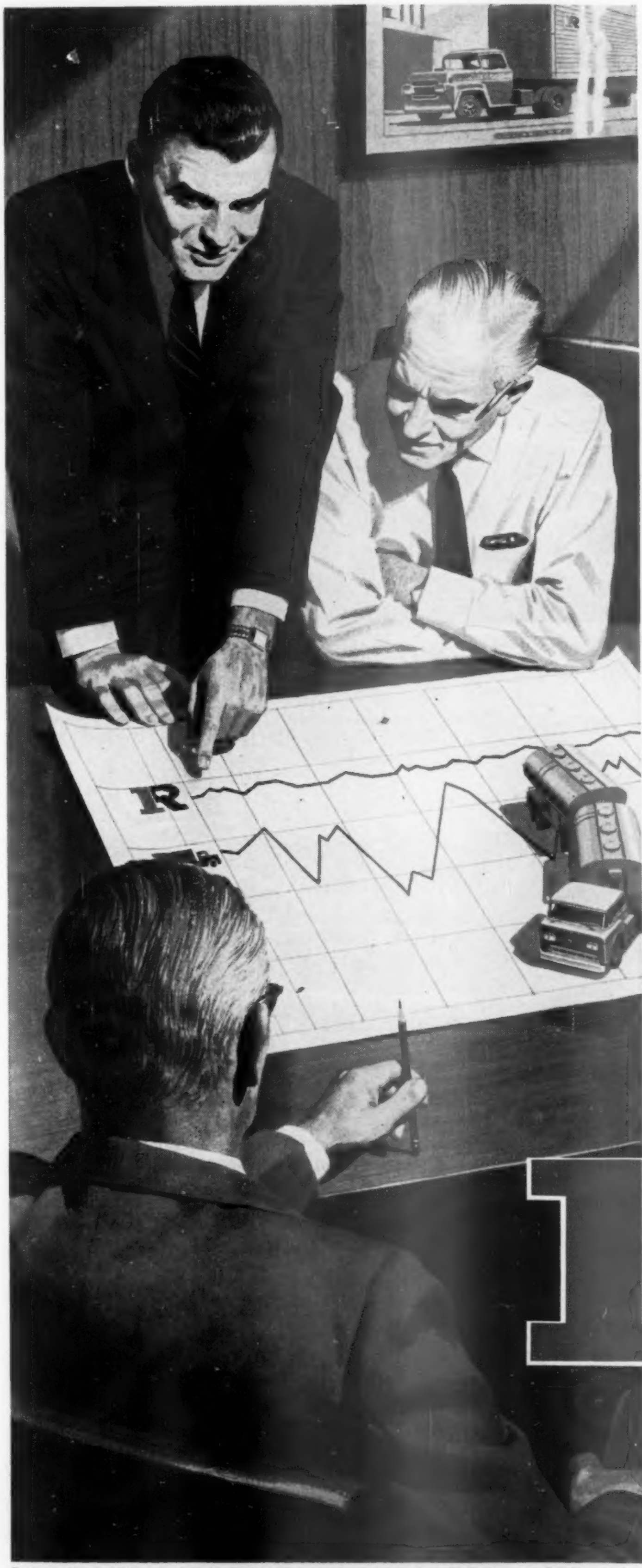
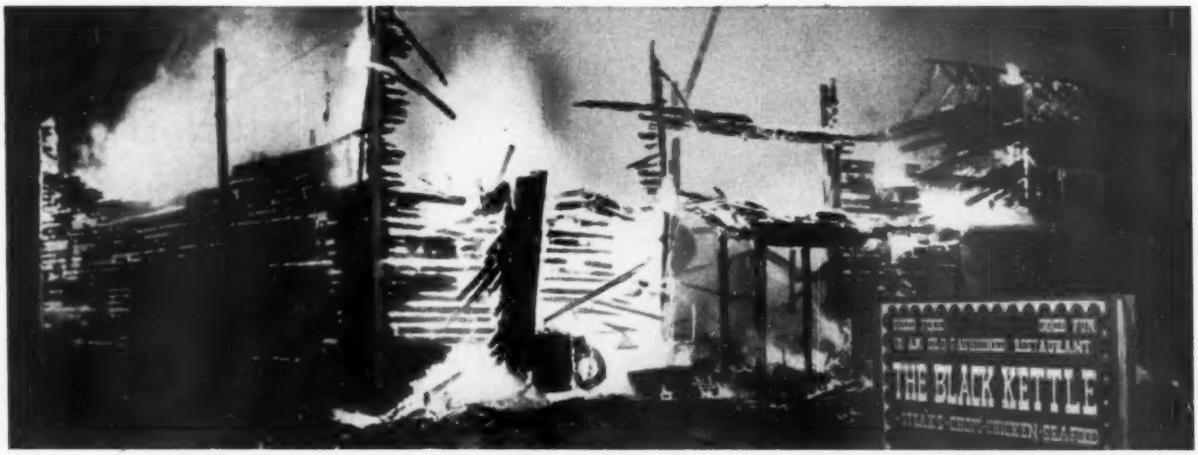


Fast-growing, publicly-owned Ryder System also operates truck lines in 22 Eastern and Southern states.

Two restaurants caught fire
...one was Grinnell Sprinklered!



This frame building housing The Black Kettle Restaurant didn't stand a chance when fire started during the night. The structure was well involved by flames before anyone was even aware of the blaze. Loss: one building; one business; $30,000!

MEADOWS
UNDER NEW OWNERS
NORMAN FARLEY
BERNARD GOODMAN

When a carelessly discarded cigarette started a fire in The Meadows, Framingham, Mass., Grinnell Sprinklers stood the building in good stead. One sprinkler head detected and doused the blaze quickly, before serious damage could occur.

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GRINNELL

FIRE PROTECTION SYSTEMS SINCE 1870


PENICILLIN

BUSINESS OUTLOOK

A BUSINESS WEEK SERVICE

Surging hardgoods are lifting the whole economy.

Industrial production is at a new high—152 on the Federal Reserve's index. The index jumped two points in May, is now six points above its peak in 1956. It's the surge in durables that is chiefly responsible.

The effects are spreading. **Climbing factory payrolls help to power the rise of personal income.** That reached $376-billion in May, a new high. And higher incomes are helping merchants set records in **retail sales.**

—•—

The resurgence in durables has already come a long way. Factories and mines are producing 20% more than they did at the bottom of the recession—only 13 months ago. The pickup has been faster than it was in 1955.

With the upswing, more and more industries in the hardgoods class are stepping up production. Some have topped old peaks; others are close.

It all adds up to new records for hardgoods as a whole. At 168, the index for production of durables is four points above its old high, set in December 1956.

Some of the spurt in hardgoods is illusory—in the sense that customers have been building up inventories, so raising production above the level of sales. That's true—up to a point.

Look at the record for this year. **Makers of durables have raised their output 10% since January.** Detroit has raised auto production by the same 10%. **But production of primary metals—mostly steel—has shot up twice as fast.** It has gained 20% this year.

But what's going into inventory is only part of the story.

Both current use of steel and auto sales have been gaining steadily.

Production for inventory probably accounts for no more than two or three points of the 152 showing on the Federal Reserve index.

It's steady gains—scored by a whole host of industries—that are powering this rise.

Makers of **farm machinery** and **construction equipment** have been in the vanguard of the resurging industries since last winter. **Lumber, stone, clay, and glass** have been lifted by the boom in construction. **Office equipment, electronics, aircraft and** missiles stay at a high level.

Most encouraging—the 10% rise since January in industrial and commercial machinery. That's solid evidence that business is investing more.

—•—

The people who turn out softgoods don't have quite as much zip in their sales and production charts.

But they started up from the recession much earlier—got back to their old highs sometime last summer.

They're still going up. The Federal Reserve's May figure for production of nondurables was 143—a one-point gain. That's a good 11 points above the index's previous high.

Practically everybody is in on this boom. Textiles, apparel, paper, chemicals, foods—and others—are all comfortably above their old highs.

BUSINESS WEEK
JUNE 20, 1959

The customers are raining money on retailers. Store sales in May—by the Commerce Dept.'s advance report—were $18.2-billion.

That rate may wrinkle brows in Washington.

If people continue to spend this way, it may raise questions of controlling the boom. May sales were up 1.7% over April. That raised spending to an annual rate of $219-billion. That suggests a sales total for the year as much as $19-billion above 1958's $200.5-billion.

What's surprising is the size of the surge. Even in 1955, when customers went on something of a spree, sales gained only $15-billion.

This year's consumer boom is different from 1955's, however. It's a bigger country, for one thing. And the buying is spread more widely.

In 1955, the buying binge centered on autos. Now auto sales have only recently gotten back to what you might call a "normal" level.

This time, it's apparel and other softgoods that are getting the bigger chunk of the householder's dollar.

—•—

There's a new battle for savings.

More and more, **the customers are using their savings to put down payments on new homes and autos.** Others are putting money into stocks and real estate. This, of course, reflects confidence in good times.

Savings institutions are seeing the effects. Shareholders in savings and loan associations withdrew $5.5-billion in the first four months of this year—almost $1-billion more than they did last year.

New accounts came in even faster, so the S&Ls have more than offset their losses.

Savings banks are having a little more trouble. They're taking in more new deposits than a year ago, but withdrawals are sharply higher. So the banks' net gain is off sharply from last year.

—•—

Weakening copper prices this week mirrored the belief among metal traders that U. S. miners would stay on the job after wage contracts expire on June 30.

Custom smelters chopped their price by ½¢ to 31½¢ a pound. This cut was foreshadowed by sagging prices in the metal markets in New York and London. Professional traders there were betting that miners would keep working until a steel settlement sets a wage pattern.

Record-high mine output—both here and abroad—is putting an additional damper on copper quotes. But metal experts say demand should match output as industrial activity in the U. S. and Europe climbs higher.

—•—

Worry over a drastic decline in homebuilding may be premature.

Housing figures for May show private starts at an annual rate of 1,340,000 (p. 34). That's a respectable showing even by boom year standards.

Starts are bound to fall off, of course, as higher interest rates pinch the supply of mortgage funds, but commitments already made should carry home building through the second half at close to a 1¼-million rate.

BUSINESS WEEK

JUNE 20, 1959
NUMBER 1555

Variety, Sobriety in '60 Cars

● With the "compact" Corvair, Falcon, and Valiant and Chrysler's new Dart, there'll be more to choose from.

● Many more cars will have unitized, frameless bodies.

● Styling will mute the colors and chrome, tame down the flying fins, feature cleanness of line.

● It should be an interesting market year, with the new nameplates to confuse comparisons and with a fourth price class to complicate things.

In only three weeks, U. S. automakers will begin shutting down plants to make ready for the changeover to the 1960 models. The Dodge main plant in Hamtramck, Mich., for instance, will be closed down in mid-July for six weeks—to prepare for production of Chrysler's two new cars, the Valiant and the Dart. Studebaker goes down a week later.

Although the new models are expected to go on sale at about the same time as last year—September, October, and November—their debut will mark some of the biggest changes—and the widest choice—the U. S. auto industry has ever offered.

General Motors' Cadillac and Oldsmobile will probably appear first, in September, followed late in the month by Pontiac and the three Ramblers. Most of the other cars will be out in October, with the Chrysler cars trailing in November.

Depending on the outcome of the steel negotiations, some prices may be raised slightly. But the anticipated reduction of the number of models in some medium-price series may result in what might appear to be price cuts for some cars.

I. The Market

The big news, of course, will be the Big Three's compact cars. The Chevrolet Corvair, Ford Falcon, and Chrysler Valiant constitute not only a new dimension to the industry—a fourth price class—but the unknown quantity in the 1960 auto market as well. Auto officials still have misgivings about that market.

• **Price and Volume**—With prices for the new brands, according to latest information, beginning about $2,050 f.o.b. Detroit for a two-door sedan, the new small cars will be slightly costlier than the lowest-priced Larks and Ramblers, well above the most popular of the imports, and roughly $200 below the cheapest Ford, Chevrolet, Plymouth, or Dart.

Ford reportedly figures it will have to sell around 150,000 Falcons to make a normal profit, which would indicate the Big Three are thinking in production terms of at least 500,000 units among them.

The total market for small cars, including imports, is variously estimated for 1960 from 1-million to 2-million cars. This year, Lark and Rambler will produce about 500,000, with another 500,000 being imported. Thus, Big Three officials know the market is there, but they don't know how much of it their new cars will take.

Will they cut into imports, into Lark and Rambler, or into the volume cars already made by the major manufacturers? Will they entice entirely new buyers—people who, for one reason or another, haven't bought and wouldn't buy an import or a domestic "off-brand"? The answer is "yes" on all these points, but in what proportion is anyone's guess.

• **Total Sales**—The over-all auto market for 1960 looks like less of a puzzler for Detroit. Barring a long-drawn-out steel strike, the economy will be booming and employment at a high level. The great and elusive mass of buyers of 1955 models—sought but not seen in the market place every year since 1957—will have paid-for cars with an average of 50,000 to 60,000 miles on the speedometer and repair bills threatening.

More than that, prospective buyers will have more choice of new models and different features than has been available in U. S.-made autos in five years. All this adds up to a market for 6-million to 6.3-million U. S. cars.

• **Confusion**—One element of confusion in the market place will be in the registrations race. Undoubtedly, the Corvair and the Falcon will be registered respectively as Chevrolet and Ford. But Chrysler's Valiant has been announced as a "completely separate" car, implying that it will not be registered as a Plymouth.

Plymouth also stands to lose as much as 25% of its registrations to the Dart, which will be offered by Dodge dealers in lieu of, and in competition with, the Plymouth. The Dart will be Plymouth in size and price but with styling more like the Dodge—such as a car Chrysler has made in Canada. So, it is likely that Plymouth will never again be in third place in registrations, though Chrysler Corp. may raise its total share of the market.

Ford, Chevrolet, and Plymouth also in effect become medium-priced cars with the introduction of a new line of lower-priced cars. This probably means a reduction in the number of model series offered by these and by the traditional middle-bracket cars.

II. New Features

Heading the list of new features (next pages) are the new body shells offered by Ford, Edsel, all the Chrysler cars, and the new compact cars.

The Ford-Edsel body shell will be conventional, but the others will be of unitized or single-unit construction, like the Ramblers, Thunderbirds, Lincoln, and many imports. Historically, Chrysler had unitized bodies on its Airflow models in the mid-1930s, as did Ford's prewar Lincoln-Zephyr. Nash got it in 1941 and Hudson in 1948.

• **Body Balance Sheet**—Single-unit construction, where body panels are welded together without benefit of separate

THE 1960 CARS:

Here's what these companies → will do in these size ranges ↓	GENERAL MOTORS	FORD
COMPACT (unitized bodies on all except Lark)  100″ to 114″ wheelbase	**CORVAIR**—108-in. wheelbase, 175 in. over all; 68 in. wide, 52 in. high. Engine: 6-cyl., opposed-piston, aluminum block, air-cooled, 92 hp., mounted in rear. No station wagon.	**FALCON** — 109.5-in. wheelbase, about 181 in. over all; 70 in. wide, 54 in. high. Engine: 6-cyl. valve-in-head, cast iron block, water-cooled, 86.5 hp. Styled with Thunderbird-like slopes front and rear. **THUNDERBIRD** — 113-in. wheelbase. Restyled for even more slope, front and rear.
"LOW-PRICED"  114″ to 120″ wheelbase	**CHEVROLET** — 119-in. wheelbase. Major restyling front and rear; fins refined, and cat's-eye tail lights abandoned. Floor pan lowered for more seating comfort; "greenhouse" unchanged.	**FORD** — 119-in. wheelbase. New body shell and chassis, about 5½ in. wider than current models; more interior space. "Crisp" styling continued, with new sloping front end. **EDSEL** — 120-in. wheelbase. Shares new body shell with Ford; continues to use its own distinctive vertical grill.
MEDIUM  120″ to 128″ wheelbase	**PONTIAC**—122-124-in. wheelbase. New, more massive grill; floor pan lowered for more comfortable seat height; new, smaller Hydramatic transmission that requires less hump in floor. **OLDSMOBILE** — 123-126-in. wheelbase. Less chrome trim; new, smaller Hydramatic transmission, less hump in floor. **BUICK** — 123-126.3-in. wheelbase. More massive appearance. Transmission hump and drive shaft tunnel cut down.	**MERCURY**—126-in. wheelbase. Major restyling below belt line for torpedo or oval silhouette; center vertical emphasis in grill; doors may cut into roof a bit more.
LARGE  128″ and up wheelbase	**CADILLAC** — 130-in. wheelbase. Styling refined: fins cut down, crisper lines, less chrome. Less hump in floor for transmission and drive shaft.	**LINCOLN and CONTINENTAL** —Both 131-in. wheelbase. New models will probably have a less squared-off look.

frame, offers lighter weight, more interior space, and potentially tighter, longer-lasting bodies. The big bugaboo has always been rust.

Without heavy chassis-frame sections, when rust eats through a panel, the basic body strength may suffer. Early in 1958, Rambler began dipping the entire bodies of its Americans in a rust-proofing paint vat. Lincoln and T-bird dip only the lower section.

Chrysler is going all the way to achieve freedom from rust in the unit bodies it will offer on all 1960 models except the Imperial. Chrysler bodies—which will differ from other unit constructions in that they'll bolt onto the front fender, suspension, and engine section—will be "sheep-dipped" no less than four times in rust preventives.

• **Flatter Floors**—Chrysler's new bodies

They'll be more conservatively styled, with less chrome and fewer colors. There'll be a wider use of unitized bodies (integrated with the frame). Most significant: a wider range of sizes.

CHRYSLER	AMERICAN MOTORS	STUDEBAKER-PACKARD
VALIANT—106-in. wheelbase, 183 in. over all; 70 in. wide, 54 in. high. Engine: 6-cyl. valve-in-head, first with cast iron block but later aluminum block, about 110 hp. Engine will be tilted from the perpendicular to allow hood line to be lowered. New automatic transmission.	**AMERICAN** — 100-in. wheelbase. Four-door sedan will be offered for first time. **RAMBLER**—6-cyl. and 8-cyl. on 108-in. wheelbase. Major restyling. New instrument panel.	**LARK** — 108.5-in. wheelbase. Will offer new convertible, four-door station wagon, and perhaps pickup truck on station wagon chassis. Dual headlights; new tail-light treatment.
PLYMOUTH — 118-in. wheelbase. New 6-cyl., 130-hp. engine. Unitized body, continued finned styling; lower transmission hump in floor; return to chair-height seating. **DART**—118-in. wheelbase; on Plymouth body shell, but styled more like Dodge. To be sold by Dodge dealers, who no longer sell Plymouth.	**AMBASSADOR** — 117-in. wheelbase. New styling inside and out, more distinctive of its own nameplate.	
DODGE, DE SOTO, CHRYSLER — 122-125-in. wheelbase, all on same new unitized body. Newly styled in more Continental look but retaining the fins; torpedo silhouette with clean sweep of lines; more glass area. Lowered transmission hump; return to chair-height seating.		**HAWK** — 120.5-in. wheelbase, sports coupe only; little change.
IMPERIAL—129-in. wheelbase. Newly styled with new body shell, not unitized like rest of Chrysler line. Lower transmission hump; chair-height seating. New type of electrical system, perhaps based on AC.		**MERCEDES-BENZ**—This import is Studebaker-Packard's entry in the luxury car field.

will also include a return to "chair-height seats." General Motors will lower the floor pans in its cars to improve seat height.

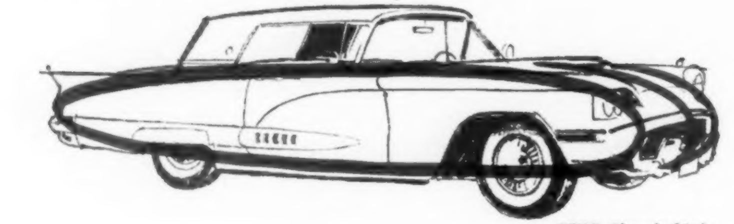
Ford's new body shell will be longer and wider, and all the Big Three cars are expected to reduce the transmission hump and driveshaft tunnel in some degree. Ford and Edsel, for instance, will probably move the engine and transmission forward, as in the 1959 Mercury. GM's Olds and Pontiac will reduce the hump with a new, smaller Hydramatic transmission on some models, while Buick may revert to a simpler transmission to do the same.

It's expected that new, less expensive, automatic transmissions will be offered on the Falcon, Corvair and Valiant.

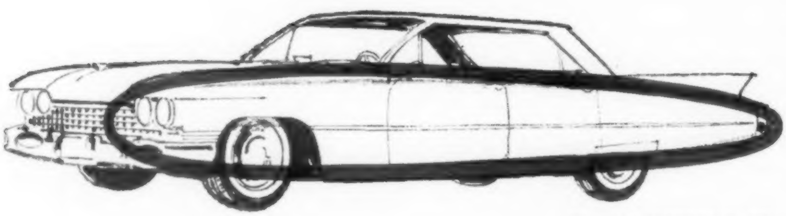
• **Power Plants**—New 6-cyl. engines will appear in the Corvair, Falcon, and

STYLE ELEMENTS from existing cars that will show up in the 1960 models.

OVAL PROFILE

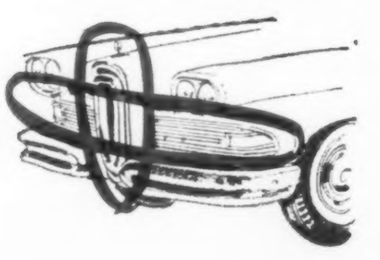


FORD *Thunderbird*

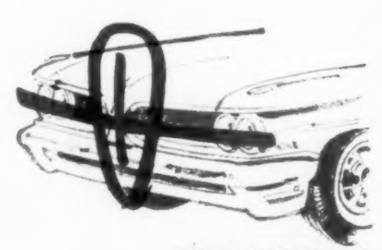


GENERAL MOTORS *Cadillac*

CROSS SHAPED FRONT



FORD *Edsel*



GENERAL MOTORS *Pontiac*

Chrysler cars. The Corvair, of course, will offer the radical aircooled, aluminum-crankcase, rear-mounted power plant. Falcon will have a small overhead-valve 6 much like the Ford (of England) Zephyr. Valiant will have a larger, new ohv. 6, which will be canted to one side to lower the hood line. The Plymouth and Dart will have a larger new ohv. 6.

Other new features you can look for on some 1960 models this fall will be a radical alternating-current electrical system; front suspension bearings of plastic fiber, and better braking through return to 15-in. wheels and adoption of aluminum brake drums.

III. Styling

Styling for 1960 will generally be more conservative, more subdued. Chrome and stainless steel trim will be reduced, colors will be quieter, with fewer two- or three-tone finishes. Fins, except on Chrysler cars, will be refined or eliminated.

Engineers and others who have seen the new models say that Ford apparently is embarking on a new styling theme for all its cars, with emphasis on slanting front and rear ends, as in the Thunderbird, to render a somewhat oval silhouette (drawings). The center vertical emphasis in the grill, as demonstrated in the Edsel and the 1959 Pontiac (drawings), will be expanded throughout the industry. Headlights may appear to be nearer the ground, and the grills of GM cars will have a more massive appearance.

People who have seen the 1960 Chevrolet and Buick comment that they appear to be "face-lifted one year backwards"—that is, they look less like '60s than like '59s. Generally, rear ends will probably be deemphasized. The torpedo-like side panel theme of the 1959 Cadillac will be evident in some Ford and Chrysler models next year, some observers say.

GM is not expected to change its "greenhouses"—the part above the belt line—much this year. Ford and Edsel will adopt the Thunderbird-Galaxie roof line, and Mercury may have doors cutting into the roof. Chrysler greenhouses will have more glass.

American Motors cars for next year will be extensively restyled, inside and out, but the basic body shell, in use since 1956, won't be changed. The 100-in.-wheelbase American will offer a four-door model.

Studebaker-Packard will offer new body styles for its Lark—a convertible, a four-door wagon, and a new pickup on the line of the Ford Ranchero (which will be dropped) and the Chevy El Camino. Dual headlights and minor restyling are also looked for in the 1960 Lark.

Senate Committee Votes To Renew Renegotiation

The Senate Finance Committee voted this week to renew the controversial Renegotiation Act for 30 months. Under this law, which expires June 30, the government can recapture "excessive" profits on defense contracts.

Extension of the law has already been approved by the House. The Senate committee's bill differs from the House version in two respects:

- The committee killed the House-passed amendments to liberalize the law by simplifying contractors' appeals from Renegotiation Board rulings. The House amendments would require the board to spell out precisely how excessive profits are calculated in individual cases, thus making it easier for contractors to plan their appeals. It would also allow contractors to carry U. S. Tax Court decisions on board rulings to the U. S. Court of Appeals.
- The House voted to extend the law for four years (the Administration sought a two-year extension). In approving the 30-month extension, the Senate committee called for a broad-gauged Congressional investigation of defense procurement policy and of the renegotiation program itself.

The Senate committee, like the House, turned down defense producers' pleas for an exemption from renegotiation for contracts with incentive clauses—the type of contract that makes up most of the cases in the aircraft industry's pending Tax Court appeal from renegotiation rulings amounting to \$72.1-million in allegedly excessive defense profits.

A Win for Free Trade at OCDM

● The Administration rejects an industry plea for protection against imports of heavy electrical equipment.

● Purchases of foreign gear don't threaten national security, OCDM says, and curbs would hurt U. S. trade policy.

● The decision doesn't establish a pattern, though, because several similar cases are still pending.

The Office of Civil & Defense Mobilization last week ended 15 months of study by coming to a conclusion the electrical equipment industry didn't want to hear. Imports of heavy electrical equipment, OCDM Director Leo A. Hoegh held, are not a threat to national security.

Thus Hoegh rejected petitions from General Electric Co., Westinghouse Electric Corp., and the National Electrical Manufacturers Assn. for protection from their foreign competitors. The requests prompted a debate over U. S. foreign trade policy, resolved in this case with a finding that harmonious relations with the nation's allies take precedence.

• **Protective Acts**—The industry was seeking relief from the rivalry of foreign hydraulic turbines and turbogenerators, transformers, and circuit breakers under two pieces of protective legislation:

• Sec. 8 of the Reciprocal Trade Agreements Act, under which quotas or other restrictions can be imposed on imports if OCDM finds they are a threat to domestic production capacity that is vital to the national security.

• The Buy-American Act, which gives domestic bidders an advantage over foreign concerns in vying for federal government business. The price differential for U. S. companies is 6% in all cases, 12% if they are in depressed labor areas, and unlimited if the national security is involved.

• **Precedents**—The electrical equipment makers' plea was not the first test of the national security provisions of these two acts. In 1956, petitions of domestic watch manufacturers for protection under the provisions were turned down. Last winter, however, OCDM invoked the Buy-American Act to award a contract to Baldwin-Lima-Hamilton Corp. for an Army Engineers' hydraulic turbine generator installation at Greer's Ferry, Ark., even though Baldwin-Lima's bid was 18% above one from English Electric Co. Last spring, the Administration placed oil imports under mandatory quotas in response to appeals from domestic producers. That action was the first taken under Sec. 8.

Five other cases are still pending at OCDM. One involves steam turbines and generators; a second concerns wool knit gloves, but may be expanded to cover all cotton textiles. Three others deal with strategic minerals—cobalt, fluorspar, and tungsten.

Despite the additional "no" handed down last week, it's too early to detect a pattern in Administration policy because of the cases still hanging fire.

• **Relative Share**—The electric equipment makers conceded that the volume of competing imports is small. In the last seven years, installed capacity of foreign generating equipment came to about 370,000 kw.—or only about 1/400th of total U. S. capacity. Imports of all electrical products are running about $100-million annually; the U. S. exports seven times more than it imports in this category.

Most of the heavy power equipment that comes into the U. S. is from Britain's English Electric and C. A. Parsons, Ltd., Switzerland's Brown-Boveri Corp., and Italy's Ferranti Electric Corp. It has gone mainly to the U. S. government, through the Army Engineers, Tennessee Valley Authority, or other public power agencies. Foreign bids in this market are subject to Buy-American, but so far this act's national security provisions have been applied only in the Greer's Ferry case.

• **Accusations**—The foreign manufacturers, much rejuvenated, are campaigning vigorously for U. S. business. The domestic industry resents this invasion, especially since Westinghouse, for one, used to enjoy exclusive U. S. distribution rights for English Electric. With U. S. electric generating capacity growing at an estimated 15% a year, both sides crave the market.

In seeking protection, the U. S. manufacturers took advantage of the broader criteria added to Sec. 8 by Congress last year. They charged that foreign equipment is inferior in quality and harder to maintain and repair. If it were allowed to enter the country hampered only by existing restrictions, the industry complained, the growth of domestic production would be throttled.

• **Hoegh's Thinking**—In his turndown, OCDM's Hoegh held that further restrictions would have "deleterious effects" on U. S. foreign trade policy and that these effects "would themselves be inimical to the national security." New curbs, he ruled, would damage the policy of trade cooperation with the allies, impair resistance to Soviet economic penetration, stimulate retaliation abroad, and be interpreted as "a retreat from the basic concept of interdependence of the free nations of the world."

However, Hoegh did offer some glimmers of hope to the seekers of trade protection. He accepted the contention that the electrical equipment industry is "defense-essential," even though he felt imports were no threat to this. He reminded the industry that OCDM has yet to make up its mind on a similar case, filed by the same companies, involving steam turbines and generators. And he recommended that all government agencies purchasing heavy electrical gear require foreign bidders to have repair and maintenance facilities on the North American continent.

• **Political Decisions**—All the fuss over foreign competition in this and other cases points up one fact on which almost everyone—even OCDM staffers—readily agrees: Any finding under the national security provisions of Sec. 8 and the Buy-American Act must, in the final analysis, be a political decision. It can't be based solely on economic factors, because no one can say for sure exactly what level of foreign imports would impair productive facilities at home in a national emergency that might arise years hence.

In last week's decision, free trade won out over protection in the political arena. Pres. Eisenhower directed Hoegh to rule as he did on the urging of Under Secy. of State C. Douglas Dillon and British Prime Minister Macmillan. One source close to the White House says Clarence Randall, Presidential adviser on trade policy, swung the outcome in the final week.

The related steam turbine case may turn out differently because of different political circumstances. In the oil case, the domestic producers prevailed despite objections of the politically influential international oil interests. The domestic watchmakers had the support of the Pentagon in the bitter three-year fight they ultimately lost.

Now the electrical equipment makers will take their quest for protection to Congress. They favor amending the Buy-American Act to require consideration of all a domestic company's cost factors—including such items as corporation taxes and Social Security payments—before awarding a foreign bid.

Wings Clipped

Pentagon letter indicates a victory for airlines in their long fight to keep MATS from competing with them.

There's a chance that the wings of the world's largest airline—the Military Air Transportation Service—may be clipped. MATS has been under fire for years from critics in the airline industry and in Congress, who demand that it stick to its strictly military mission of standing by for airlift and leave the hauling of passengers and routine cargoes to the airlines.

Pressure from the House Government Operations Committee and the Senate Commerce Committee, backed by Federal Aviation Administrator Elwood Quesada, appears to have forced some rethinking in the Pentagon.

Sen. Mike Monroney (D-Okla.), chairman of a special Commerce subcommittee to investigate MATS, got a letter from Asst. Defense Secy. Perkins McGuire substantially agreeing (1) that MATS' essential duty should be to stand ready to provide a strategic airlift in a military emergency and (2) that routine hauls, to the greatest extent possible, should be handled by commercial carriers.

• **Lot of Business**—If the Pentagon means what it says—and there's considerable skepticism in Washington—the policy switch is a major victory for the airlines.

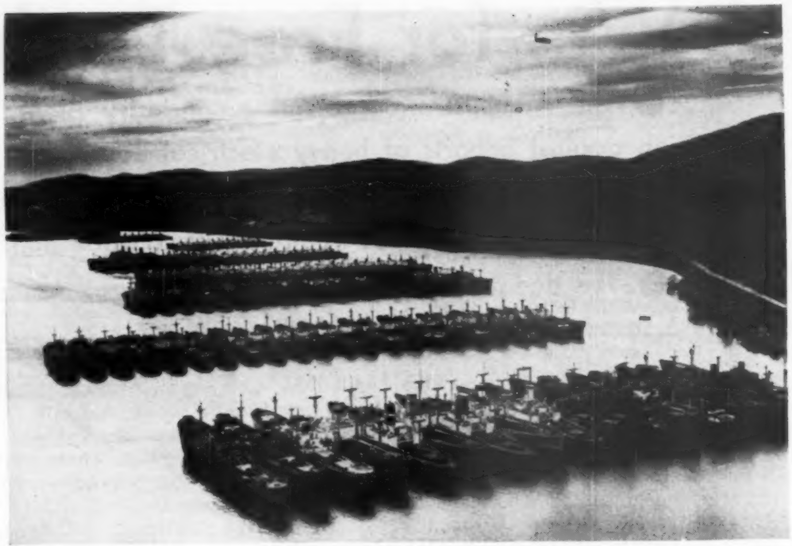
The House Government Operations Committee noted recently that 600 of MATS' more than 1,400 aircraft fly worldwide over scheduled routes and that 800 flight attendants, 480 of them female, are on duty.

This year, military travelers are expected to fly 2.5-billion passenger-miles, and military cargoes will account for 800-million ton-miles. About 35% of the passenger business and 10% of the cargo business are being channeled now to the commercial airlines—upward of $70-million worth per year.

Monroney says that 57% of the passenger traffic and 29% of the cargo carried by MATS could be handled immediately by the certificated airlines with their present equipment.

• **Need Planes**—Not even the most optimistic airline official expects a sweeping change. The lines hope only for a shift toward use of their services.

For a complete takeover, especially of the military cargo, the airlines admit they need new, more efficient planes. Monroney and Quesada see a government program to help develop such planes, and to finance their purchase, as the next item on the agenda.



Liberties to Go for Scrap

Succumbing to time and progress, the war-built Liberty ship is slated for the scrap yard. After keeping some 1,400 Liberties mothballed in reserve fleets in the Hudson River (above) and seven other spots around the country for the past decade, the Administration has finally decided to sell them for scrap.

The economics of maintaining the vessels—it costs around $3,500 a year to keep a ship preserved—has finally outpaced their potential military usefulness. Their slow speeds, only 10 to 11 knots, make them undesirable for possible wartime use today; the Navy wants merchant ships to have at least 15-knot speeds, in view of the potent Soviet submarine fleet that could be unleashed against them.

So Maritime Administrator Clarence G. Morse has told Congress no money is being requested this year to maintain the Liberties in the National Defense Reserve Fleet. Instead, they will go up for sale.

• **Heyday**—The Liberty ships achieved fame in World War II, when the U.S. had the staggering job of transporting millions of tons of military supplies and millions of troops to every corner of the globe. A round-the-clock building program, on an assembly line schedule, turned them out in a matter of days rather than the normal one to two years required to build a merchant ship.

Some 2,708 Liberties were built between 1941 and 1945—1,208 of them in 1943 alone. The first, the Patrick Henry, was sold for scrap a few years ago. Adapted from a British ship design, the Liberties measured 441 ft. long, could carry over 10,000 tons of cargo.

Because of their slow speed, only 816 were bought after the war by commercial operators—and only 129 are still used by U. S. shipowners. The rest are operated by foreign merchant fleets—38 by the Russians, who got them on wartime lend-lease, and kept them. Congress recognized, however, that they were an emergency product, for quick, cheap, simple construction.

After the war Congress set up the reserve fleet to preserve surplus merchant ships in case they should be needed again. These are mothballed in the Hudson, in the James River of Virginia, at Wilmington (N. C.), Suisun Bay (Calif.), Astoria (Ore.), Olympia (Wash.), Mobile (Ala.) and Beaumont (Tex.). Of 2,054 merchant ships in the eight fleets, 1,407 are Liberties.

• **Economics**—Efforts have been made to step up the speed of the Liberties to prolong their military use. In 1954, the Maritime Administration started a $12-million program for changing their design and propulsion to increase speeds. One Liberty had an engine change to see if the existing hull design could withstand 15-knot speeds. Three others were lengthened by 25 feet and got new types of engines. Speeds were increased up to 18 knots.

The ships performed well, but it is generally conceded that it is not economically sound to convert more of the aging Liberties.

Some 114 Liberties have already been sold for scrap at an average price of $75,098. The government has set a minimum scrap price of $70,000, but if they don't sell at that level it may be forced to cut the price. The ships cost around $2-million apiece to build originally. After the war they were sold for around $1-million.

How to Make Productivity Spurt

● A slowdown is likely in U. S.' fast postwar rise in productivity, National Bureau of Economic Research finds.

● This could brake U. S. growth, in face of rapid—though possibly also dwindling—Soviet gains in output.

● So Bureau is tackling question of how to keep U. S. productivity gains climbing at a fast pace.

Growth in productivity has, of course, been one of the big elements in over-all U. S. economic growth. Over the long term, however, it has not proceeded at a constant pace, but rather in a series of spurts—with two of the major spurts coming after World War I, and again after World War II. Now, a period of slower growth may lie ahead.

What this means for the U. S., in terms of its own advance and in the world struggle with the Soviet Union—and what should be done about it—is the subject of a new report of the National Bureau of Economic Research.

The National Bureau, whose president is Arthur F. Burns, former chairman of Pres. Eisenhower's Council of Economic Advisors, is a private, nonprofit research agency. Its purpose is to ascertain and present to the public "in a scientific and impartial manner" important economic facts and their interpretation. The findings on productivity appear in its 39th annual report.

• Rates and Cycles—In their study, Bureau economists have found:

• During the quarter-century before World War I, output per man-hour grew at a rate of 22% per decade.

• Since World War I, it has averaged 29% per decade.

• Since World War II, growth in output per man-hour has stepped up to a rate of 35% to 40% per decade.

The National Bureau's research director, Solomon Fabricant, thinks it would be a mistake to assume from this that the pace of productivity gain will go on speeding up. It's far more likely, he finds, that there will be some slowdown in the rate of gain in the years just ahead. This view is based on published work—and work in progress—by three National Bureau research associates: Johns Hopkins' Simon Kuznets, George Washington's John Kendrick, and Stanford's Moses Abramovitz.

Their studies, covering nearly a century since the Civil War, suggest that changes in the rate of growth of productivity come in long cycles, lasting one to two decades. Periods of rapid gain centered in the late 1870s, the late 1890s, the early 1920s, the late 1930s, and the late 1940s or early 1950s. Periods of slower gain centered in the late 1880s, the late 1910s, the early 1930s, and the early 1940s (though the evidence for this period is somewhat confused because of recovery from the Depression and the switch to war production).

• Soviet Comparisons—This possible slowing in the rate of productivity gain disturbs Fabricant, because of what it could mean for the pace of over-all U. S. economic growth and the struggle with the Soviet Union.

The National Bureau has not taken the Soviet Union's own glittering growth claims at face value. Instead, it has backed studies of Soviet growth under the University of Virginia's Warren Nutter (BW—Jan.4'58,p74).

Nutter's results thus far appear to water down Soviet claims greatly. Yet Fabricant doesn't find even these results especially reassuring. "While the Soviet figures do not look quite so bad as they otherwise might," he told BUSINESS WEEK, "nevertheless, the Soviet rate of growth in industrial output since 1928 is something we need to worry about." Soviet output appears to have been growing at 6% to 7% a year, about double the U. S. rate.

• More Workers—The National Bureau's studies throw new light on what's behind these faster Soviet gains. They have not resulted from a faster climb in Soviet productivity. From 1928 to 1955, U. S. labor productivity rose about as rapidly as Russia's in terms of output per worker, and probably more rapidly in output per man-hour.

Over the 27 years, Soviet productivity rose by 52%, but with the steepest rise—21% in output per worker—bunched at the end of the period, from 1950 to 1955. This implies a gain of better than 40% for the whole 1950 decade—equal to or better than the hot post-World War II U. S. rate of gain.

Over the long haul, the big boost for Soviet output, the National Bureau studies suggest, came instead from rising industrial employment. In the U. S., employment in industry rose at about the same pace as labor productivity—but in Russia it rose much faster. Fabricant concludes that Russia's great gains in output came primarily from diversion of manpower from agriculture and other lines to industry. He sees in this important implications for Soviet nonindustrial output—and for the future rate of Russia's industrial growth as the possibility of such transfer runs out.

• What to Do—That doesn't mean, according to Fabricant, that the U. S.—like a prize fighter bruised by a powerful opponent—should console itself with the thought, "He can't last—he's wearing himself out." The National Bureau means to devote a major share of its resources to try to discover just what will keep up and speed up the pace of U. S. productivity and economic growth.

Increases in the "tangible capital"—plant and equipment—behind each U. S. worker have had a "significant" role in raising labor productivity, but Bureau researchers no longer regard this role as "dominant."

John Kendrick's studies show that since 1889 the productivity of labor and capital, when combined into a single index, has increased at an average rate close to 20% per decade. What made the combined index rise so fast? That's what the bureau aims to find out—through a series of studies it will launch into what it suspects are the major factors in economic growth:

• Technology—"a factor not measured by volume of capital or by number of workers," says Fabricant.

• Education—"a major investment activity," really a capital investment in human beings, both through regular schools and colleges and through corporate in-plant training.

• Research and development—"the main task . . . is to develop ways to grasp the elusive qualities and quantities involved," Fabricant comments.

• Incentives—The National Bureau means also to take a profound look at the incentives—or disincentives—for U. S. economic growth, such as the effects of the present U. S. tax system, behavior of labor and business under present legislation, government subsidies for agriculture or other industries, barriers to labor or capital mobility.

Fabricant asks: "Have we been moving away from a sound position on incentives, while the Russians have been moving toward it?" He thinks prime emphasis should be given to incentives—"of which the Russians were thoroughly aware when they abandoned their policy of equalitarianism almost 30 years ago."

At the same time, Fabricant feels that in some things essential to growth—such as extra support for education and basic research—the U. S. government may need to do, not less, but more.

Medical Switch

AMA's decision to end fight against closed-panel health plans may spur new worker fringe demands.

Organized medicine in the U.S. made a complete and pretty well unexpected about-face last week. The American Medical Assn., one of the most conservative organizations in the country and one of the last refuges of the non-organization man, decided it was time to make peace with doctors who have allied themselves with so-called closed-panel plans for health insurance. These plans offer prepaid medical care to their subscribers, so long as they use the services of doctors already approved by the plans.

Until last week the more conservative elements in AMA regarded these doctors as aiding and abetting the creep of socialism, and of disloyalty to the profession because they allowed outsiders—the laymen who run the plans—to decide which doctors were fit to work with the plans. Now, in the words of one AMA staffer, "We've recognized that the 20th century is here."

• **Probable Effects**—But the AMA has done more than that. It has, by deciding to seek "closer liaison with closed-panel plans," opened the way to the spread of those plans, to the broadening of voluntary health insurance, and to the probability of a change in the pattern of union-management bargaining over fringe benefits.

For years, the AMA, which through its state chapters can wield vast influence over the career of an individual doctor, has maintained that one main cornerstone of medicine is a patient's free choice of his physician. Since the closed-panel plans don't offer that, the AMA has frowned on them and on doctors who cooperate with them.

• **Different Approaches**—More than 200 of these plans operate in the U.S. today. More than 5,000—and probably closer to 10,000—of the national total of some 165,000 physicians work with these plans. And more than 5.5-million persons are covered by them.

In contrast, about 55-million people are covered by the Blue Cross and Blue Shield hospital and surgical insurance schemes, which do allow free choice of doctors. But there are several vital differences between these schemes and the closed panel plans. The most important is that the panel plans usually offer complete coverage—they meet the cost of every visit to the doctor and every item of medical care, whether the patient is in hospital or not. The Blue Cross-Blue Shield schemes usually cover only part of the cost of illnesses for which a patient is hospitalized.

• **Broader Coverage**—In the early postwar years, few groups insisted on broader coverage. The United Mine Workers, for one, used welfare and retirement funds to build hospitals (it has 10 of these now) and to pay fees to a selected list of doctors for the care they gave UMW members. On the West Coast, Henry J. Kaiser's companies set up a scheme to provide full medical and hospital service to their employees. (This is open to the public now and has 650,000 subscribers; it operates 13 hospitals, has the full-time service of 625 physicians.) In New York the International Ladies Garment Workers Union set up a plan similar to the UMW's. And the city administration's employees formed the basis for establishment of the Health Insurance Plan of Greater New York. (This, too, is open to other employee groups, has 550,000 subscribers; its 1,000 contract doctors run their own approved clinics.)

These are among the largest of closed panel health plans, and local chapters of the AMA have in the past fought them bitterly. Ten years ago, says Kaiser Foundation Health Plan, its doctors were ostracized, professionally and socially, by many county medical societies.

• **"Blues" Trouble**—A lot of this antagonism has waned in the last few years. And meantime the AMA-approved Blue Cross-Blue Shield schemes have been having trouble meeting rapidly climbing payments to hospitals and doctors.

Some of the "Blues'" troubles, say insurance company executives, arise because patients persuade their doctors to put them in the hospital unnecessarily, just so their expenses will be covered. Doctors, too, are inclined to hospitalize patients unnecessarily, just so they will have the assurance that they'll get payment from Blue Shield.

Unions complain that this waters down the value of their hard-won benefits. Managements publicly complain far less. But each Blue Cross-Blue Shield rate increase today adds to the costs of most industries.

It's unlikely that the AMA's decision will prompt any quick expansion of closed panel plans. But it will make it easier for the plans to recruit doctors. It will push Blue Shield and commercial insurance companies to expand still further the benefits they offer.

One of its earliest effects could be to speed the establishment of what would be the largest of all panel plans—Detroit's Community Health Assn. sponsored by the United Auto Workers, most of whose 1-million-odd members are now Blue Cross-Blue Shield subscribers. CHA, "gratified by the AMA's recognition," says it plans to start operating within less than a year.

British

BRITISH engineer at Durgapur steel mill site draws plan on palm of Indian aide.

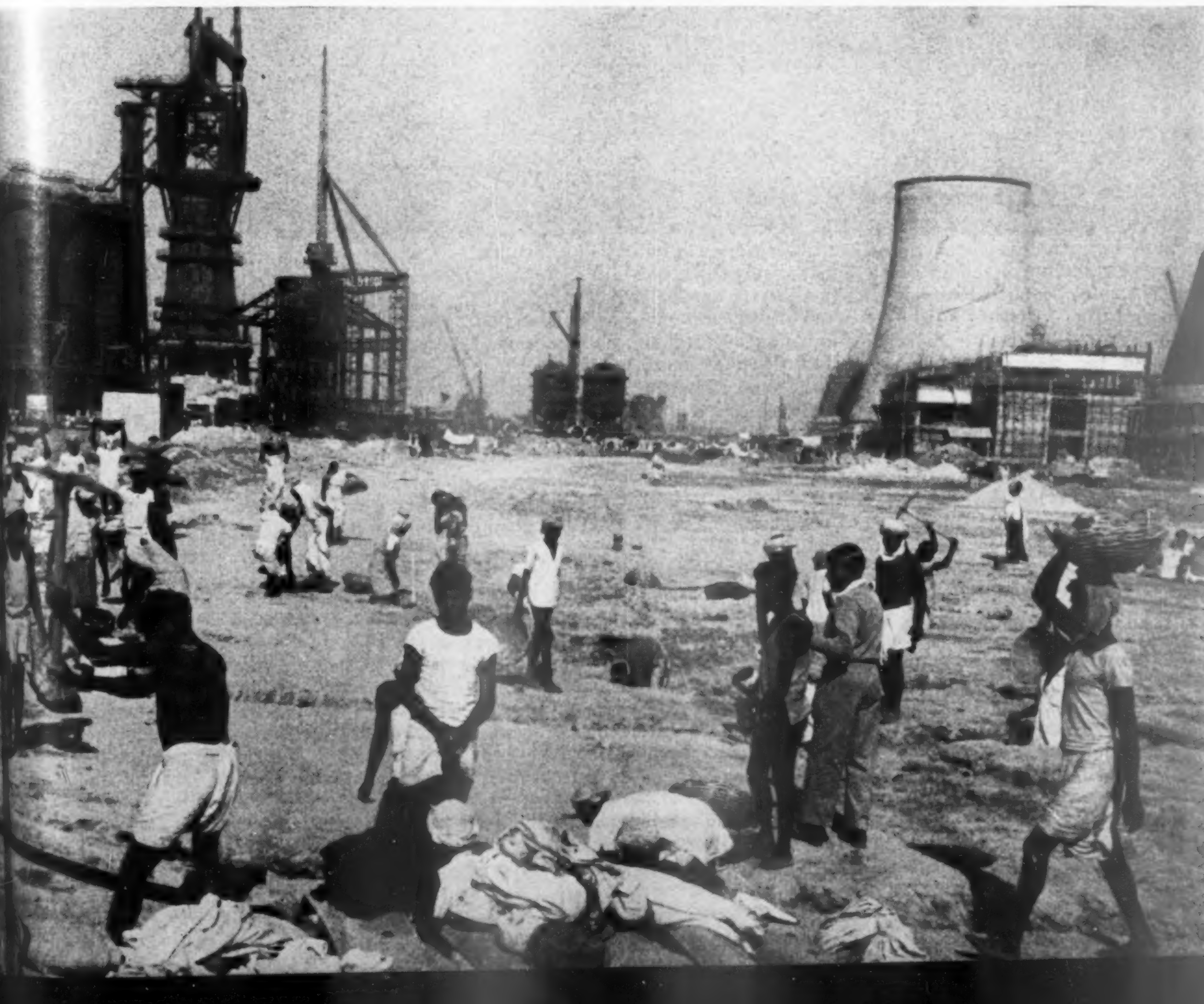
Help Indians Meet Steel Goal

Britain, which used to run India, is now helping the country's industrial expansion—on a contract basis. At Durgapur (pictures), 118 miles from Calcutta, the Indian Steelworks Construction Co., Ltd., (ISCON) is building a 1-million-ton steel mill. The 13-company British consortium hopes to wind up the $345-million job in July, 1961.

Russia has attracted worldwide attention for its 1-million-ton mill at Bhilai (BW—Apr.18'59,p164). But Britain, West Germany, and the U.S. all have been working, in a quieter way, to expand India's steel capacity from 1.5-million tons to a planned 6-million ton goal. At Rourkela, the Germans last February started the first blast furnace of their mill—on the same day the Russians started theirs. Kaiser Engineers, on its part, has just completed a large expansion for privately owned Tata Iron & Steel. By October, the British will have coke ovens and a blast furnace operating at Durgapur.

FIRST STAGE of steel mill—coke oven (foreground), blast furnace, and cooling towers—will be completed by October. Soviet and German steel projects are in partial operation.

CONSTRUCTION provides jobs for some 25,000 workers from West Bengal. Communists have created minor labor disturbances.



Housing Demand Looks Solid

- This year's 1.3-million dwelling units reflect high demand for both single-family homes and rental units.
- The biggest market for houses is among second home owners who have outgrown their old quarters.
- This market looks strong enough to last until family formations pick up in the mid-60s.

The housing boom that got under way over a year ago promises to roll up into the third-largest housing year in history, behind only 1950 and 1955. And it's based on customer demand that shows no sign of saturation.

This time, it's second- or third-home buyers who are giving the boom to the single-family house. In most cases, these people have outgrown their first nest, or want to upgrade their living. While money was tight and building supplies scarce, they were content to expand and improve existing homes. But as credit conditions eased, they have been able to buy new homes.

It's this type of purchaser who is expected to sustain the boom until the mid-1960s, when the family formation rate will begin to bulge again and take over as a building stimulant.

• **Prospects**—Last year, 1,142,000 private nonfarm dwelling units were started. This year, the forecast is for 1.3-million. Even though the Labor Dept. reports that the May rate was off slightly from April, housing economists refuse to be budged. Almost half the 1.3-million starts already are fact, and the recent tightening of money won't have a damaging effect on housing until late this year, they insist.

• **Credit Terms**—Two factors above all account for the rosy forecast: credit availability and consumer demand.

Housing is a counter-cyclical industry. When demand for long-term capital by government and other businesses falls off, there is plenty of money available for housing. When government or business steps up borrowing, mortgages face tough competition for long-term funds—especially limited-interest Veterans' Administration and Federal Housing Administration mortgages.

• **Sales-Rental Demand**—Even though money for mortgages has been ample until recently, credit isn't the whole story. Somebody has to want to borrow, somebody has to want housing. In the hungry years, housing was a question of shelter—any shelter. But people no longer are homeless. So, what's behind the demand now?

Essentially, there are two kinds of demand: sales and rental. Demand for single-family homes is holding up well. In the first five months of this year, there were 443,400 starts—38% ahead of a year ago. But the demand for rental housing, while smaller in proportion, is the strongest in decades. Last year, 209,000 rental units were started—the highest since 1928—and this year's pace is 57% ahead of a year ago.

• **The Market**—To examine the market for sales and rental housing, BUSINESS WEEK reporters talked to lenders, builders, realtors—and buyers and renters themselves. This is what they found:

• The most significant thing about purchasers is that an increasing number are buying their second or third home. They need or can afford a bigger one.

• Demand for low-priced homes—where buyers have a harder time scraping up downpayment or closing costs—is softer than that for medium-priced or even high-priced homes.

• Availability of mortgage money not only enables a family to buy a second house; it also makes it easier to sell the old one.

• Luxury apartments are going up all over the country, both in town and in the suburbs. Here and there, a few families are moving back to the city.

• **Three Factors**—So long as household formation is running humdrum at a stable level—as it will be until the mid-1960s—any surge in housing demand must come from other sources. According to BUSINESS WEEK's survey, three other forces are now at work:

Upgrading: The desire or need for a larger home.

Migration: The continued shuttling of the population.

Demolition: Razing of homes for freeways, urban redevelopment, etc.

• **High Standard of Living**—Of the three, upgrading stands out. Somewhere between 40% and 50% of today's home buyers are selling their home to buy a new one. That compares with 32% in 1951. Some are driven to buy because their children require separate bedrooms. Others earn more, and can afford a better house.

For all families, but particularly for those with lower incomes, inflation has been a boon. The veteran who 10 years ago bought a house in Levittown, N. Y., with no downpayment for $7,900 can get $12,000 for it today. Even if he has reduced his mortgage only to $6,000, he can clear something like $6,000 in cash to apply on a new $18,000 home.

In cases where space is not a need, families simply are able to afford a better home. The husband is making a larger income than ever before. With the children growing up, the wife may have taken a job to provide a second source of income. And now that the recession is well past, they feel sufficiently confident to improve their standard of living.

The majority of the second- or third-home buyers are going for houses in the middle-price range. The actual price bracket varies. It starts at $12,000 in Portland, Ore., at $14,000 in Minneapolis, at $16,000 in the Philadelphia area, and $18,000 around Boston. The buyers are usually white-collar workers in their thirties or early forties.

First-home buyers make up the bulk of the market for lower-cost homes. They are likely to be truck drivers, factory workers, or policemen who have reached the place where they want a house for their children, and probably have to scrape to get the downpayment. In Houston, prices start around $8,000, range around $14,000 in Pittsburgh.

A number of first-home buyers aren't buying new homes at all, but provide a good market for the existing homes being sold by others who are better off. These homes are likely to be roomy and less expensive in proportion.

What surprises and delights builders in many cities is the market for expensive homes. This class of buyers includes transferred corporation executives, doctors, wealthy widows, newlyweds whose parents stake them to the house. On Philadelphia's Main Line, says realtor Alan Emlen, "It's ring around the rosy, over and over again, with the same clientele."

• **Newcomers Help**—Migration from other areas is another factor in the housing market. Transfer of company personnel promotes sales in cities such as Dallas, which has a large concentration of regional offices.

Movement within metropolitan areas, too, continues unabated. There is no end to the flight from city to suburbs. Some of the slack in the city is being taken up by families moving back from the suburbs—people who prefer the stable, if high, tax rates of the city against the soaring taxes of the suburbs, or people who are fed up with commuting.

• **What They Want**—No matter what the motives, buyers seem agreed on

what they want in their new home. Above all, they want more bedrooms and more bathrooms. Built-in kitchen appliances are in demand. Some builders note that clients are increasingly concerned with heart attacks, and are going in for a minimum of steps. Most second-home owners are more sophisticated than when they made their first purchase. They now know more about such things as the performance of different heating units, quality of windows, and the need for ample wiring.

• **Apartments Share Boom**—Despite the trend to more bedrooms and patios, rental units are sharing the coast-to-coast boom. Apartments are still favored by many newlyweds, single persons, older couples whose children have grown up, and families that are still shopping for a home.

In Boston, the first high-rise apartment house is about to go up. In Los Angeles, where single-family construction has devoured close-in land, apartment houses are mushrooming. Minneapolis, never much of a city for renting, is putting up a number of apartments. Brooklyn (N. Y.) residents are building duplexes, getting "free" rent by renting out half the building.

In a number of cities, the construction of apartments has pushed the vacancy rate of rental units to 15%. In Los Angeles, it reached the point where the Apartment Assn. asked savings and loan associations to stop financing rental housing. The Building Contractors Assn. reported that apartment owners are simply mad because they have been able to collect high rents on older buildings; now most improve their properties to compete with the new buildings.

Luxury apartments are the big thing everywhere. Often they are all a builder can afford to put up on expensive, centrally located land.

In some cities, such as Baltimore, single-family homes—often trade-ins that builders accept on a deal for a new house—are available for rent. Negroes, Puerto Ricans, and other minorities that can't buy homes in many areas provide another market for rental units.

• **Long-Term Prospects**—Against this growing demand, the outlook for housing looks strong for the long term if the money market should tighten.

It's the money market that dictates largely how many, or how few, houses will be built with FHA or VA mortgages. If the rates are attractive to lenders, there is plenty of demand from borrowers. (This week, the Senate passed a House bill to raise the VA rate to 5¼%.) Applications for inspection by FHA and VA are running ahead of last year, assuring a continued backlog of housing.

• **Steady Market**—Conventionally financed mortgages, which traditionally support more than half the housing construction, are less vulnerable to market fluctuations. Their volume continues to hold steady. As the BUSINESS WEEK survey turned up, the inflated values put on existing homes is enabling many second-home buyers to put up the cash to buy new homes through conventional financing.

For the next three or four years, builders expect to benefit from the upgrading and migration factors and, to a lesser extent, from demolition of houses. Then they look for household formations to step up again, and can hardly contain their enthusiasm for the prospects beyond 1965.

Congress Turns Liberal on Aid

The Administration is opposed to a change in foreign assistance for an unfamiliar reason—both House and Senate approved more than it asked for underdeveloped lands.

A radical change in the Congressional debate over foreign aid has taken place in recent weeks. What looked like a field day for the opponents of foreign aid now may turn into a slugging match.

Internationally minded Democrats on both the Senate Foreign Relations Committee and the House Foreign Affairs Committee have quietly launched a counterattack that has gone so far that the Administration finds itself—for the first time in the history of the program—opposing a major change on the paradoxical ground that it is too liberal.

The outlook still is uncertain. Substantial cuts in military aid and some cuts in economic aid still are probable. But it looks as though the liberal Democrats' drive, at the least, has blunted the ax of anti-aid forces.

• **More for Development**—The main push of the two committees is toward increasing long-term economic assistance to underdeveloped countries. They still want cuts in military aid to Asian and Middle Eastern allies, although they favor maintaining or increasing new weapons aid to NATO.

Here, in detail, is what's been happening:

In the Senate, the Foreign Relations Committee this week approved a foreign aid bill authorizing close to $4.2-billion for foreign aid in fiscal 1960. For the first time in history, that was more than the total requested by the Administration—by $256-million. The committee called for authorizing the Development Loan Fund—which makes easy-term loans to underdeveloped countries—to borrow up to $1-billion a year from the Treasury for five years. That compares to a one-year $700-million appropriation asked by the Administration.

This provision faces fierce opposition in both houses of Congress. Eisenhower's opposition will sway moderate Republicans to say no.

The committee also transferred $223-million worth of military funds requested for allies in Asia and the Middle East to NATO to buy new weapons.

In the House, a foreign aid bill was cut in committee only $267-million below the Administration request. It also called for $100-million more for the Development Loan Fund than the President had requested. The money would be obtained by chopping $366-million out of military and political aid funds.

• **Turnaround**—The Administration has been embarrassed by the Senate committee's move to increase the resources of the Development Loan Fund and to authorize it to borrow from the Treasury—thus short-circuiting the economy-minded appropriations committees.

Two years ago the late Secretary of State, John Foster Dulles, pleaded with Congress to permit the fund to borrow up to $2-billion from the Treasury over a three-year period to meet the growing threat of the Soviet economic offensive. Congress refused.

This year, the Administration has been warning more solemnly than ever of the dangers of Soviet economic penetration. But now that the Senate has proposed that the fund be put on a long-term basis, with authority to borrow from the Treasury, the White House is strongly opposed.

The about-face on the issue reflects the President's sharp turn to the right on fiscal policy following the Republican defeat last fall.

• **Why Congress Shifted**—The sharp change in the mood toward foreign aid on Capitol Hill in recent weeks is a subtle thing to explain. Part of the explanation is that the pro-aid Democratic leaders have drawn new support from Democrats elected for the first time last fall—men like Chester Bowles, former Ambassador to India, in the House, and young Sen. Frank Church (D-Ida.), a member of the Foreign Relations Committee.

One influence undoubtedly was the report by the blue-ribbon Presidential committee to study foreign aid, recommending a $400-million boost in military aid to NATO.

Part of the answer may also be stronger business support for U.S. assistance to underdeveloped countries.

In Business

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Piggyback's Latest: Autos Ride Transport Trucks Atop Flatcars

A new and potentially lucrative line of business has been added to the railroads' piggyback freight trade. This week, St. Louis-San Francisco RR (the Frisco) hauled 80 new autos from Chrysler Corp.'s plant in St. Louis to Ft. Worth aboard 20 highway auto transport trucks that were themselves piggybacked on flatcars.

Ford is also using the Frisco's piggyback system to ship Mercurys from St. Louis to Oklahoma and Texas. Chevy will start next month piggybacking new cars from its Oakland plant to northern California and Oregon.

Detroit's Big Three say that in some areas piggybacking is a valuable cost and time saver.

In New Jersey, another ironic move in the highway-railroad battle cropped up. Gov. Robert Meyner **proposed that surplus earnings of the rich New Jersey Turnpike be used to subsidize the state's shaky commuter railroads.** To win approval, Meyner will have to get the legislature's O.K. to conduct a referendum on whether the state should put its full credit behind the Turnpike bonds, then win that referendum, then get the bondholder's approval.

If he were successful, some $30-million to $40-million would be available from the surplus right away, and by the time the Turnpike bonds were retired in 1988 almost another $600-million could be used.

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TVA Gets Westinghouse Bid For 800,000-Kw. Generator

Bids for steam turbine generators up to 60% larger than the biggest (500,000 kw) now in use were opened this week by TVA. Westinghouse offered the largest of all, an 800,000-kw. job whose $24-million price tag works out to $30 per kw.—the same unit cost as General Electric's proposed 600,000-kw. model for $18,007,280.

There's no certainty, though, that either U.S. company will get the job, for **three foreign bidders offered 500,000-kw. models at a much lower cost per kilowatt.** Brown Boveri's $8½-million bid figures to $17 per kw., while Parsons at $11,541,000 and English Electric at $11,840,000 were just over $20 per kw.

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Bethlehem Drops Executive Bonuses, Adopts Tax-Saving "Dividend" Plan

Bethlehem Steel Corp., noted for its executive pay scale, is abolishing the big yearend cash bonuses which gave the company 10 of the 25 top slots in BUSINESS WEEK survey of executive compensation (BW—Jun.13 '59,p46).

Instead, **the executives will collect "dividend units" equal to the dividends paid on a share of Bethlehem common stock.** The number of units per man is determined by a formula involving company income; payments will continue for life.

Bethlehem says it adopted the dividend unit system—similar to those in effect at du Pont and General Motors—to avoid the huge taxes on big bonuses, by spreading the payments over the years. Last year, it is estimated, Pres. Arthur B. Homer kept only $98,374 of his $511,249 total compensation.

The plan comes up for stockholder approval July 28. If it's adopted, Bethlehem expects that a suit charging payment of excessive bonuses will be dropped.

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Business Briefs

A federal grand jury in New York this week brought in a Taft-Hartley indictment of **Dave Beck,** former boss of the Teamsters, **Roy Fruehauf,** chairman of Fruehauf Trailer Co., and **Bert Seymour,** president of Associated Transport, Inc., and its subsidiary Brown Equipment & Mfg. Co. The indictment charges that Fruehauf and Seymour "did unlawfully pay" $200,000 to Beck; the case apparently grows out of transactions developed before the McClellan committee two years ago (BW—May18 '57,p153).

Pay-TV, hampered by FCC restrictions in the U.S. (BW—Mar.28'59,p110), will get a tryout in Canada in the late fall. Famous Players Canadian Corp., subsidiary of Paramount Pictures Corp., has set up a new division, Trans Canada Telemeter, which will operate **a cable pay-as-you-see system in Etobicoke, West Toronto suburb.** Famous Players will start with about 5,000 homes. Viewers will pay $5 for installation on coin boxes, about $1 for first-run movies. Old-time films may cost viewers as little as 5¢.

A bill raising taxes on life insurance companies by about $500-million on last year's income and $535-million on 1959 income has been sent by Congress to the White House for Presidential approval, which is expected.

Rand Development Corp.'s new Moscow office (BW—Apr.4'59,p33) has obtained **U.S. production rights for its first Russian product**—a machine for rapid suturing of body tissues with tantalum staples.

"An intensive study of policy and practices of U.S. subsidiaries in Canada" is planned by the Canadian-American Committee, financed partly by private industry and partly by the Carnegie Foundation.

Companies wishing to be named in the **Small Business Administration's new list** of outfits interested in securing government research and development contracts should apply to SBA by July 17. The list is available to government purchasing officers and prime contractors.

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WASHINGTON OUTLOOK

WASHINGTON BUREAU
JUNE 20, 1959

A BUSINESS WEEK SERVICE

GOP strategy for 1960 is evolving. You should watch it closely. It will influence business. The central theme will be to sell the "sound dollar," and pin the blame for inflation on Democratic big spending programs. The effect hoped for is to draw a sharper line between Republican and Democratic theory and practice on THE issue: inflation.

Pres. Eisenhower is an author of the idea. He will go all out now to try to make sure that his successor is a Republican.

The effort will be to build a pocketbook issue—something that appeals to the working man and his wife. The stage setting is going on now. It indicates that Eisenhower will veto money bills voted by the Democratic-run Congress that substantially exceed the Administration's budget. This has been a prospect for many months. Now it seems assured.

Eisenhower will go on the air—use fireside chats.

His personal popularity still is high. The effort will be to build up popular support for Eisenhower's ideas ahead of next year's Presidential nominating conventions.

The appeal will be to all age groups. The inflation that started in 1939 has damaged the retirement hopes of millions. The holder of a \$50,000 insurance policy 20 years ago now is faced with the fact that it's worth only \$24,000. These will be the arguments that Eisenhower and the GOP will use as they try to blame Democrats for "cheap" money.

Will it work? GOP insiders think it might.

Democrats have no big issues. There's peace in the world, even though it is on the uneasy side. Times are good. Business, over-all, is reaching for new highs. Jobs are becoming more plentiful all the time. The number of people out of work is declining, month by month. The Washington forecasters see a high level of business through next year.

The Democrats are floundering, frankly. In January, they were all-out for a big rise in spending. This showed up in their housing, airport construction, area development, and other bills. Now, these bills are all bogged down. The basic reason is that recovery has come about without any of these so-called stimulants. And Democratic leaders in Congress are burned up over attacks from the National Committee's advisory council demanding more spending.

On the Republican side, factional fighting seems to be on the decline. The liberals, who felt six months ago that Eisenhower was too conservative on spending, are fairly quiet today. The conservatives, who complained last year that Eisenhower had become "New Deal" on spending, are more content. They like the current trend.

Hopes of individual candidates are involved, in both parties.

Vice-Pres. Nixon, who stood by the Eisenhower line even when he had doubts about its appeal, may gain.

New York Gov. Rockefeller, who is considered more liberal than Nixon, may be hurt a bit.

The showdown between these two will come in New Hampshire next year. This is the early primary, and both men are in. Rockefeller will have

WASHINGTON BUREAU JUNE 20, 1959

the backing of Sherman Adams, former governor of the state and former top assistant to Eisenhower, who left Washington last fall after the investigation of his relations with Bernard Goldfine. Adams never approved of Nixon. But Sen. Styles Bridges, who comes up for reelection next year, will be for Nixon. If Rockefeller loses in New Hampshire, he might withdraw. Nixon wouldn't.

On the Democratic side, the liberal contenders are worried.

Gov. Williams of Michigan now is being given no chance at all.

Former candidate Stevenson appears very modest in his statements and many within his party say the modesty is justified.

Sen. Symington of Missouri has his hopes, and may well wind up with the backing of ex-Pres. Truman. But many recall that Truman's backing failed to help Harriman in 1956.

Senate Leader Johnson of Texas is rated as stronger all the time.

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On the steel wage dispute, Eisenhower's intention is to stay out and let management and labor reach an agreement. Since his first nomination in 1952, Eisenhower has felt that the White House should not become involved in disputes of this type. So far, it's a policy he has followed.

Note the efforts to get Washington in. Sen. Symington has proposed that Eisenhower "take the leadership" in this wage controversy, as did ex-Pres. Truman. You may recall that when Truman got the White House involved, the steelworkers got one of their biggest wage increases and the cost was passed along to steel users.

The Washington assumption is that steel wages will rise. The hope, of course, is that (1) the raise will be modest, (2) the strike if any will be short, and (3) the higher costs will not be passed on in higher prices.

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Odds against a labor reform bill at this session are rising.

The unions expect a tough bill in the House—much tougher than the Kennedy bill passed by the Senate.

Here's the union strategy: A real effort will be made to kill the bill in the House Labor & Education Committee. If this fails, and a bill is reported out, there will be no effort on the floor to soften the terms. The idea is that if the bill is tough enough, and the House passes it, it will then die in conference between the House and Senate.

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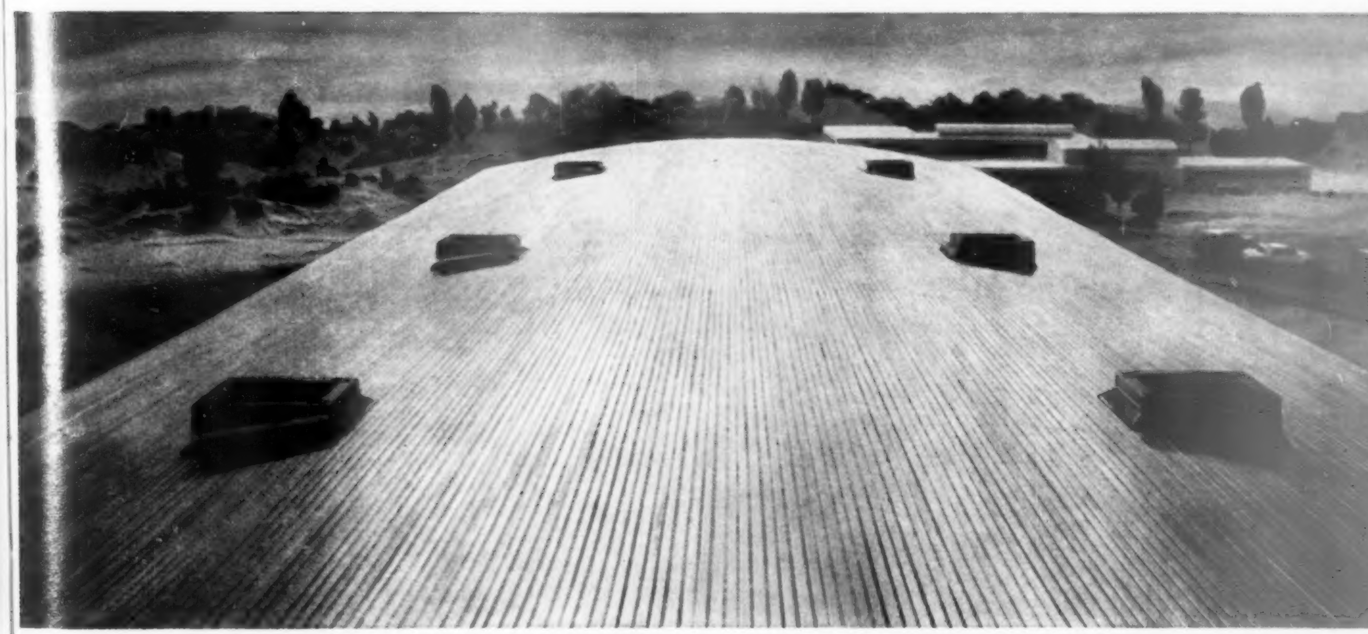
The debt ceiling will be increased ahead of the June 30 deadline.

The House will vote a permanent rise of $2-billion. This would put the fixed ceiling at $285-billion—$3-billion less than Eisenhower wants.

And there will be a temporary rise of $10-billion. Note that this is for one year only, which means that the debt ceiling issue will come up again next year in the atmosphere of a Presidential election.

Federal interest ceilings will be raised. There will be bitter controversy on this. Eisenhower won't get the freedom he wants for the Treasury in the money market. But he will win a compromise, and this will tend to stiffen all interest rates.



Albert Gommi

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A Good Guess at Brewers' Sales
(Thousands of Barrels)

	1958	1957	1950
Anheuser-Busch	6,982*	6,116	4,526
Schlitz	5,893	6,024	5,097
Falstaff	4,502	4,300	2,287
Ballantine	4,036	3,982	4,375
Carling	3,531	3,151	501
Hamm	3,394	3,376	1,053
Liebmann	2,847	2,900	2,662
Schaefer	2,787	2,940	2,652
Pabst	2,550**	2,900	3,150
Miller	2,309	2,322	2,106
INDUSTRY TOTAL	84,425	84,371	83,250

*Includes American Brewing Co., purchased by A-B in 1958.
**Does not include Blatz' sales of 1,700,000 bbl. Pabst acquired Blatz in 1958.
Data: Published Figures and BUSINESS WEEK Estimates.

U.S. Brewers Thirst for a Boom

Brewers are a mysterious lot. For the most part, they hide their sales and production figures in a locked drawer. Of the companies listed in the table above, only three—Anheuser-Busch, Inc., Falstaff Brewing Corp., and Pabst Brewing Co.—are public corporations. Some of the other brewers issue sales figures. Some don't.

Hence a tabulation of the top 10 has to be a good guess only. Other estimates would show a different picture: The F. & M. Schaefer Brewing Co., for example, ranks above Liebmann Breweries according to some dopesters. Liebmann says this is nonsense. Schaefer refuses to comment. Again, many reports put a newcomer in the big time, San Francisco's Lucky Lager Brewing Co., in the No. 10 spot, in place of Miller Brewing Co. Later reports put Miller back on again. And, of course, if Pabst had added in the sales of Blatz, which it acquired last year, Pabst would have ranked higher on BUSINESS WEEK'S scale.

Another mystery is the mulishness (or stability, if you like) of the beer market. Total tax-paid withdrawals have stuck at around 85-million bbl. for some years. In a rising economy, the outsider asks, how come?

• **Delayed Impact**—Brewers have an answer or an alibi. The postwar population surge that brought big gains to so many industries helped brewers not at all. Few doctors prescribe beer for babies.

Yet there's nothing static about the industry itself. In fact, the inelasticity of the market has whipped up even stiffer competition. Until the postwar babies reach beer-drinking age, during the 1960s, gains by one company come mostly out of a competitor's pocket.

The race for a bigger share of the available market shows up two ways:

• Deeper penetration into new areas, by the large brewers, often backstopped by regional breweries.

• In the last couple of years, an outburst of interest by the so-called premium beer makers in popular-priced beer.

• **Changing Places**—Rapid changes in the ranks underscore the competition. In 1949, Carling Brewing Co. stood 62nd on the list. It is fifth today. Falstaff was No. 7 in 1950. It holds the No. 3 spot now. Clearly there's a chance for the latecomer who wants to slug it out in the marketplace.

In this kind of killing race, many small breweries have dropped out—or sold out. There were something like 475 breweries in the U. S. in 1945. There are around 250 today. In 1950, the top 10 had roughly 37% of the market. Last year they had about 45%. It may be that the weaklings have been weeded out, as some of the thriving smaller breweries believe. But most in the business look for more concentration in the hands of fewer companies. The industry reckons that 50 breweries right now are looking for a buyer.

Many locals have accentuated the competitive situation by dumping—often in the form of private label selling. Add this to rising costs and a heavy tax load, and the reasons for the high pitch of competition are apparent.

I. The Big Push

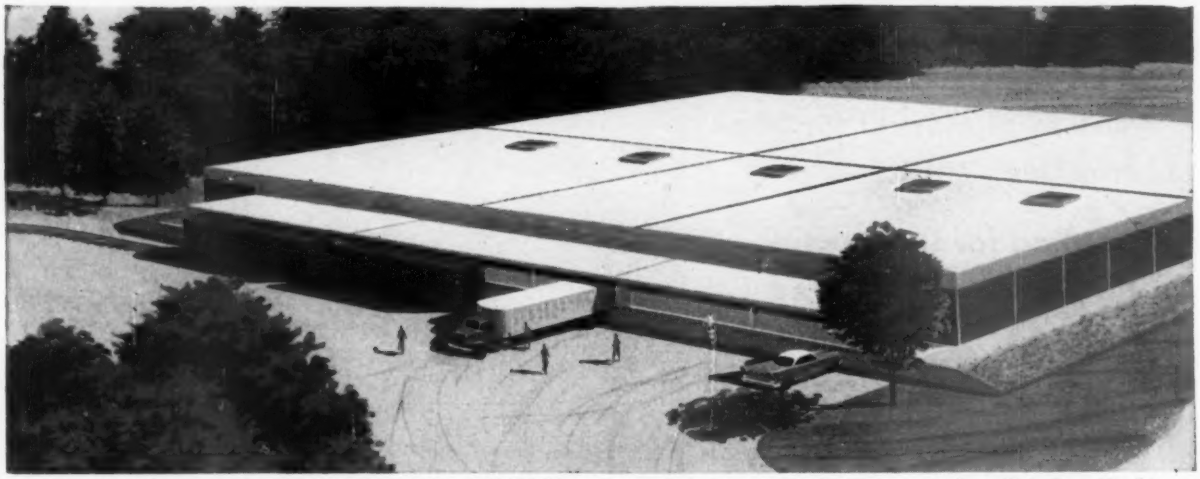
Probably the freshest element in the picture right now is the rising interest in popular-priced beer as opposed to premium beer.

Example No. 1: Anheuser-Busch owes at least some of its record sales to the fast expansion of its popular-priced Busch Bavarian. Introduced in 1955, after the spectacular flop of the company's earlier try with Busch Lager, Busch Bavarian is now selling in 15 states.

Example No. 2: Jos. Schlitz Brewing Co., which reluctantly conceded the beer crown to Anheuser-Busch last year, has revived its popular-priced brand, Old Milwaukee.

Example No. 3: Pabst Brewing makes no bones about a prime reason for the merger with Blatz. Pabst wanted a popular-priced beer.

• **Premium vs. Popular**—Actually, the line between a premium beer and a popular-priced beer is fuzzy. The word premium is a misnomer by now, says an industry spokesman. Originally, premium price simply reflected the shipping costs of the handful of companies who have long marketed nationally: An-



PHILIP MORRIS WAREHOUSE, RICHMOND, VIRGINIA: Architect H. C. Baskerville states as the reason for choosing prestressed concrete: "After comparison of a number of framing systems, prestressed proved to be the most economical." Architects & Consulting Engineers: Baskervill & Son, Hankins & Anderson, Richmond, Virginia; Architect Consultant to the Owner: Ulrich Franzen, A.I.A., New York, N. Y.; Prestressed Concrete Fabricator: **CONCRETE STRUCTURES, INC., Richmond, Virginia.**

MAY COMPANY SHOPPING CENTER, WEST COVINA: Rockwin Prestressed Concrete Corporation, states, among other reasons for the choice of this method for this $12,000,000 development: ". . . long spans with minimum intermediate columns permitting maximum unobstructed areas . . . low cost and elimination of maintenance." Architect Engineer: A. C. Martin & Associates, Los Angeles; Contractor: T-S Construction Engineers, Inc., Los Angeles; Prestressed Concrete Manufacturer: **ROCKWIN PRESTRESSED CONCRETE CORP., Santa Fe Springs, Calif.**

MAYFLOWER MOTEL, ATLANTIC CITY: Architect S. L. Malkind states: "In addition to being 25% cheaper than comparative materials, the happy union of prestressed concrete girders and floor beams and concrete columns provides a perfect foil for architectural decoration." This three-tiered motel was designed and built, from ground-breaking to opening, in five months. Architect: Samuel Lewis Malkind, New York, N. Y.; Consulting Engineer: Stresscon Associates, Newark, N. J.; Contractor: Ramat Construction Company, Spring Valley, N. Y.; Fabricator of prestressed elements: **ATLANTIC PRESTRESSED CONCRETE COMPANY, Subsidiary of Warner Company, Trenton, N. J.**

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First consider the benefits of prestressed concrete construction

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Given here are some current examples of what is being done with prestressed concrete throughout the country. In each case you'll find at least one of the above listed benefits given as the reason for the choice of this method over all types of construction.

In 1948 Roebling placed on the market the first wire and strand made specifically for the purpose of prestressing concrete. Since that time, prestressed concrete construction justifiably has enjoyed an ever-increasing acceptance — for all types of structures — by architects, engineers, contractors, builders and *by the owners and managers who pay for them.*

John A. Roebling's Sons Corporation not only has played a major role in the development and promotion of prestressed concrete, manufacturing the finest wire and strand available, but has compiled a wealth of data on design methods and tensioning details. This knowledge and experience, gained through years of research and practice, is offered to you — whether a mildly interested observer or one intent upon taking immediate advantage of all that prestressed concrete has to offer. We suggest you ask your nearby prestressed concrete fabricator for details or write to Construction Materials Division, John A. Roebling's Sons Corporation, Trenton 2, New Jersey.

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heuser-Busch, Schlitz, Pabst, Miller, and Ballantine—with its ale.

Though Anheuser-Busch has stated publicly that its biggest brand, Budweiser, reached new records and outsold all competing brands last year, over-all sales of premium beer have been declining. According to Harris Perlstein, chairman of Pabst, the premiums accounted for 26% of all volume in 1952. Now they are down to 20%.

The industry believes this decline partly accounts for the gradual drop in Miller's High Life. Miller makes only a premium beer. Rumor has it that Miller is on the lookout for a merger with a popular-priced brewery. Pres. Norman Klug denies this, without closing the door to such an eventuality.

• **Across the Map**—Expansion by addition of new plant facilities has been a pattern for some years. Pabst, headquartered in Chicago, thinks it pioneered the multi-plant setup back in 1934. It now has five, including Blatz, but is operating four. It moved Blatz production to its own newer plant, is holding the Blatz brewery in reserve. Falstaff branched out from its St. Louis home plant first in 1935. By now, of the four national beer marketers, only Miller operates from one location.

This sort of expansion is continuing. Last year, Anheuser-Busch acquired American Brewing Co. of Florida, which makes Regal, a popular-priced beer. This June, Busch opened a big, glamorous plant—complete with gardens and bird sanctuary—in Tampa. Falstaff now has eight plants in seven cities. Schlitz has five, with one in Tampa that started operations late in 1958.

Carling, whose growth has been phenomenal, had one brewery—in Cleveland—in 1949. This company, controlled by Canadian Breweries, Ltd., now has five. It started operations in Atlanta last year, bought the Heidelberg brewery in Tacoma this January, has plans for opening in Baltimore. Like Falstaff, Carling makes it clear it has its eye on the No. 1 spot.

• **Stay-at-Homes**—Yet several names on the top 10 list have stuck to a limited market. P. Ballantine & Sons manages to rank No. 4 without going beyond its big Newark, N. J., brewery. It markets in 17 states. Schaefer and Liebmann both have several breweries, but all are in the New York area, and their market is pretty much restricted to that region and New England.

None of these has any "immediate" plans to stretch farther away from home. But none is ruling out the possibility.

II. Field of Battle

Anheuser-Busch, holder of the 1958 crown, has no intention of letting it go. Its first-quarter sales this year topped last year's by some 218,000 bbl., not counting sales of Regal. The company predicts it will top 7.5-million bbl. for the year, and 8.5-million by 1960. It won't tell how much Busch Bavarian contributed to the total; it says only that Budweiser and its Michelob draft beer both were up.

Bouncy August A. Busch, Jr., president, believes the company learned some valuable lessons from the failure of Busch Lager. It tried to sell that brand as a sort of secondary Budweiser. Busch Bavarian gets separate treatment—its own marketing setup, its own advertising pitch, and a lot of separate promotion money. For instance, $1-million of its ad money goes to sponsor the St. Louis Cardinals, for Busch Bavarian. The company requires that wholesalers who handle Busch Bavarian must have separate trucks for that brand.

Flamboyance has always marked this company's doings. Its famous Grant's Farm plays host to 117,000 visitors a year. The equally famous Clydesdale horses prance in the Tournament of Roses and in country fairs across the nation. The lavish gardens and beautiful plant at Tampa are one more example of management's consciousness of the value of public relations.

• **Conflicting Claims**—Trade talk has it that Schlitz' venture into a popular-priced brand is not a success. Schlitz officials, with typical taciturnity, say sales of Old Milwaukee are up to expectations. To claims that Budweiser alone outsold Schlitz last year, the big Milwaukee brewer merely points out that Anheuser-Busch sales figures do not show individual brands.

It is estimated that about 80% of beer sold today is packaged. More and more this means supermarkets and grocery stores are major outlets; hence packaging is a big item. Budweiser has made five subtle changes in its package design in the last three years. Schaefer last year redesigned its entire line—label, trucks, and all—to make both cans and bottles pretty enough for the dinner table. Jacob Ruppert, too, redid its packaging this year.

Perhaps because men consume far more beer per capita than women, many brewers tie their advertising to sports, both on radio and TV. Recently, Budweiser has been appealing to the women in a very softpedal way, by featuring beautiful women in its ads. Ruppert this spring made a real pitch for this market. It put on a fashion show in the big tap room in its Manhattan brewery, tied up with Fifth Avenue's Arnold Constable for a Father Knickerbocker window display. One reason: According to a new study just released by Continental Can Co., two out of three men drink beer, whereas only one woman in three drinks it.

Adolph Coors Co. outside Denver has pioneered a new packaging venture: Putting beer in aluminum cans. This way, Coors says, it can package unpasteurized beer, which is, in effect, a draft beer. Coors is turning out its own cans, says its market testing has been favorable.

III. Happier Days

Most companies predict gains in 1959 —though over-all, expectations are for maybe a 1% to 2% increase. Falstaff hopes to step up sales 5%. Most others, except Anheuser-Busch, are cautious about naming figures.

But they have reason for their optimism. Strikes hurt brewers in the eastern markets last year, and a long Detroit strike knocked The Stroh Brewery Co. off the top 10. This year the industry looks for less trouble on that score.

The profit picture has been grim. Labor in a brewery comes high; raw material costs are rising; shipping costs are an ever-present blight. The ominous rumbles of price competition from local brewers don't help. But the industry has put much effort into improving production efficiency to offset all these costs.

• **The New Pabst**—For Pabst, the addition of Blatz is expected to spell a big difference. On its own, Pabst had been running in the red for the last couple of years. Blatz, with limited distribution, was one of the fastest-growing beers. Under Pabst's roof, it can get wide distribution quickly. This spring, Chmn. Perlstein reported, the company turned the corner into black ink.

Many in the trade feel that eventually it will be a case of tail wagging dog, that Blatz will top Pabst. A prominent Milwaukee brewer points out that a Blatz man, James C. Windham, became Pabst president, and that another Blatz man now heads the company sales. "It makes you wonder," he says, "who bought whom."

While clearly indicating its interest in the big 80% of the market that goes to popular-priced beers, Pabst has by no means given up on premiums. In fact, it has just brought out a new one, Pabst Original.

Right now, the industry puts high hopes in a promotion of the U.S. Brewers Foundation, aimed to tell consumers about the fine nutritive qualities of beer. TV spectaculars and advertising in Life, Saturday Evening Post, and Look, plus other consumer advertising, will do a job to sell beer, its backers hope.

But it's when they take a longer look ahead that the brewers begin to sing. Research has consistently shown that beer is the drink of the younger people. When they think of the blooming market just around the corner, they carol: "Oh, those wonderful '60s." END

Making It

Gift wrapping makers, tied to seasonal Christmas market, aim for year-round sales with fancy wrapping for all occasions.

The printing presses of the gift wrapping industry will be pushing out millions of miles of gaily decorated paper this month in preparation for what the industry confidently predicts will be the "best wrapped Christmas in history." On through a sweltering summer the gift wrapping producers will continue—some on a three-shift schedule—to pour out Christmas paper. In fact, they've been hard at work for 1959's Christmas ever since last October.

At the drawing boards, meanwhile, designers are hurrying to finish up their 1960 model Santas, sleighs, reindeer, and holly wreaths for next year's Yuletide. And the idea men are already scouring such unlikely spots as European art museums and Broadway shows in search of fresh motifs for Christmas, 1961.

Though 75% of the industry's sales come from Christmas merchandise, the job of turning out the products for the annual holiday sales spree is already a year-round task. While it is growing fast even on this seasonal sales basis, the gift wrap industry is eagerly eying the alluring sales prospects that could result from transforming itself into a truly yeararound business from the sales standpoint, too. There is a staggering potential, the industry feels, in "making it Christmas every day of the year."

• **Boon and Bane**—The fact that while Christmas dawns but once a year, the industry's sun never sets on it has been both boon and bane for gift wrap producers. The industry credits increased demand after World War II for color-

"Every gift should be wrapped."

Christmas 365 Days a Year

ful Christmas wrapping with turning a staid 50-year-old industry into a mushrooming business that may ring up as much as $200-million in sales at retail this year.

But the three ghosts of Christmas haunt the industry, too. By the time Christmas Present rolls around, the industry will be up to its ear in debt to carry the seasonal load. One big company figures that by Dec. 25 each year its borrowings pile up to a total half the size of its annual sales volume.

The ghosts of Christmases Past haunt the designers in their effort to create novel designs year after year. As one of them says, "I don't know what we're going to do with Santa Claus after 1962."

And the ghosts of future Christmases cast a worried shadow ahead. While gift wrapping is particularly subject to the vagaries of fashion, producers must commit themselves to designs as much as two years in advance of ultimate sales.

• **Line-Up**—Despite these formidable problems imposed on the gift wrapping industry by the present seasonal nature of its sales, the tempting potential of year-round gift wrap sales has brought some giant corporations into what was once a tightly held, specialty company type of business.

Minnesota Mining & Mfg. Co., long entrenched in the accessories end of gift wrapping—ribbons, seals, special tapes—has recently penetrated the lucrative gift paper market. Dow Chemical Co. acquired an old-line paper maker in Ben-Mont Papers, Inc. These companies compete with two independents, The Papercraft Corp. and Dennison Mfg. Co. for the bulk of the market.

Reynolds Metals Co., glimpsing a promising end product in aluminum foil wrapping, has set up a division to produce and sell this rapidly growing form of wrapping.

Some of the aristocrats of the greeting card business are working the other side of the fence, too. Hallmark Cards, Inc., and Norcross, Inc., have stepped up efforts to sell higher priced gift wrappings as an adjunct to their cards. The Gibson Art Co., American Greetings Corp., and United Printers and Publishers, Inc., also go in for wrappings along with cards.

• **Lure**—It's the notion of Christmas 365 days a year that is luring these companies into gift wrapping. John Young, general sales manager of Minnesota Mining's Gift Wrap & Fabric Div., rhapsodizes about the potential:

"Look at the figures—every year there are 4-million new babies, 2-million weddings, 35-million anniversaries, 5-million graduations. These and other occasions add up to 55 gifts per person per year."

"Shall I wrap it up nice to make it look more expensive?"

So far, though, the industry has failed to wrap up very much of this market. Papercraft's Pres. Joseph Katz laments, "Once you get past Christmas, people do a discouragingly small amount of wrapping. If every gift in this country were wrapped, the industry could do 10, maybe 20 times the present volume of business.

• **Psychology**—To find out how to pep up off-season sales, most companies have delved into some form of consumer research. Papercraft's Katz sums up his company's discoveries about wrapping motivation in this statement: "Our wrappings make any gift, even cheap ones, look expensive. And that's why people buy wrappings—particularly in a recession year, when they tend to buy cheaper gifts."

Papercraft retained motivational researcher Louis Cheskin, a specialist in color psychology, and has reshaped much of its design thinking in accordance with his suggestion. Figuring 98% of all wrappings are bought by women, Cheskin ruled out blue, a "cold" color that repeals the female eye, and counseled against using "masculine symbols" such as angles and sharp lines. Papercraft's new designs abound in circles and soft curves.

The company also relies on simpler research methods, such as showing advance designs to a special panel of its women employees. Minnesota Mining frequently runs a more massive sampling by testing new ideas on its 5,000-plus women employees.

• **Varied Outlets**—Wraps for the mass market wind up in some highly diverse retail outlets. Ben-Mont figures its products go into variety stores, drug chains, supermarkets, gift shops, candy stores, and discount houses. The number and variety of outlets precludes much direct selling, gives the company little control over display and in-store promotion. Ben-Mont sells through wholesalers, manufacturers agents, food brokers, and rack jobbers.

Ben-Mont's Keith Comey deplores the lack of contact with the ultimate consumer. He says, "There are a number of facts we'd like to develop about our customers. For instance, we suspect there may be substantial regional variances in taste for and usage of gift wrapping." But the ultimate consumer remains "a pretty mysterious creature."

Papercraft's Katz expresses dissatis-

". . . he's aiming to wrap and tie with ribbon Pittsburgh's newest bridge . . ."

STORY starts on p. 48

faction with his generally similar distributional setup as a means for evening out the season ups and downs. He claims his company pioneered the sale of gift wraps through supermarkets; but except at Christmas they tend to get squeezed out in the savage struggle for supermarket space. Katz bombards his distributors with plugs for gift wrap as a year-round product.

• **Widening the Sales Pattern**—Katz believes the main push to establish gift wrap as a full-season product must come from the consumer. To that end, he has engaged in some zany promotional stunts—garbing Jack Parr in a suit made of gift wrap, for example, and wrapping on TV such items as peacocks and harps. Next year he's aiming to wrap and tie with ribbon Pittsburgh's newest bridge.

Minnesota Mining has been probing a couple of untapped industrial and international markets. It has persuaded several distillers that wrapping affords an escape from ever costlier gift decanters. Minnesota's John Young notes that its overseas push may run afoul of foreign thriftiness: "Here we just rip through wrapping; over there they take it off with care, press it out, and put it away for the next year."

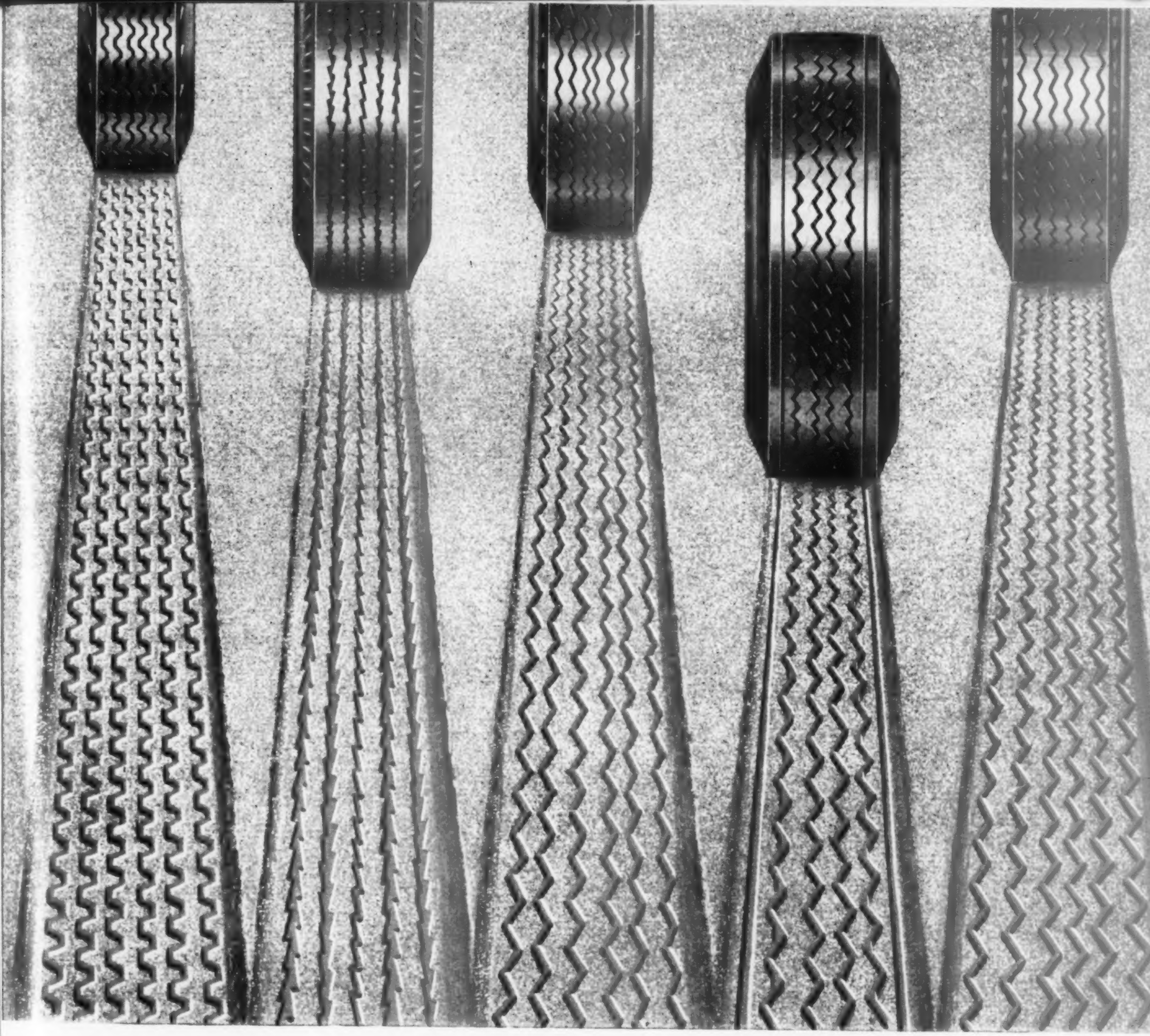
Some companies, as a promotion device, aim their products at department store gift wrapping counters (in terms of dollars sales, however, this is not an important part of the gift wrap market).

Hallmark's decidedly different marketing policies have found considerable success in breaking out of the seasonal pattern. It offers a more expensive product—a top-of-the-line package at $7.50, against the mass market companies' $1.98 top. By selling through its own men to selected retail outlets it enjoys assured store space, can respond more rapidly to consumer trends.

The company's heavy consumer advertising stresses both greeting cards and wrapping lines suitable for current seasons and occasions. It also does considerable missionary work with schools and women's clubs in films and talks.

Hallmark—and Dennison in the mass markets—have introduced wrappings with the sophisticated, humorous themes that so successfully stimulated sales in the one solidly sentimental greeting card field. Hallmark hopes this kind of specialization will help transform gift wrapping into a year-round business like greeting cards.

"Lovely thing, isn't it?"



In Marketing

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Three Leading Magazines Plan To Hike Circulation Guarantees

Mass magazines continue to enjoy climbing circulations. Three of the biggest, Life, Saturday Evening Post, and Look, have announced increases that will put their circulations at or above the 6-million mark. The Post, now guaranteeing 5.8-million, will hike its guarantee to 6-million this October—and it thinks it may have to set an even higher guarantee soon. Look has just disclosed that it will institute a 6-million guarantee effective next February. And Life plans to keep an edge over its immediate competitors by raising its rate base to 6.5-million circulation next February.

Timing the effective date of a circulation increase poses a tricky marketing problem for magazines. Higher guarantees promise fast returns in the form of additional ad revenues since ad rates are pegged to the size of a magazine's guarantee. And magazines sustain a sizable loss in servicing "bonus" circulation in excess of their guarantees while building up to a higher guarantee level.

But bonus circulation has a strong appeal for advertisers who, in effect, ride free on the extra circulation until a new guarantee is established. Look claims it presently delivers a bonus of 250,000, will be giving a bonus of 400,000 to 500,000 by the fourth quarter of 1959. The Post is currently delivering a bonus of 400,000.

Life boosted its circulation rapidly by cutting newsstand rates from 25¢ down to 19¢ a copy and dropping subscription prices proportionately, (BW—May9'59,p49). The Post and Look say major upswings in new subscriptions have enabled them to increase circulation. Look finds selling new subscriptions through quality department store charge accounts an especially fertile source of new circulation.

• • •

FTC, Tire Industry Square Off Again— This Time It's Price Conspiracy Charge

Two familiar contestants in antitrust litigation—the Federal Trade Commission and the rubber tire industry—are lining up for another go-round, this time on how the industry does its pricing.

FTC last week filed a broad price-fixing conspiracy case against 15 tire and tube manufacturers and two trade associations. **The charges involved the Big Four (Goodyear, Firestone, B. F. Goodrich, and U. S. Rubber), General Tire & Rubber Co., and 10 "minors" of the industry.**

The commission's main charge is that the companies illegally combined to adopt a single zone delivered price system. The system itself is not at issue, it's the alleged conspiracy element that brought the case on.

The commission charges that the price offered by one manufacturer to customers in a particular classification anywhere in the country is "identically or substantially matched" by all the others. FTC says that "by prearrangement and understanding," prices offered by General and the minors are made at "recognized differentials" below the matched offers of the Big Four.

Such a "prearrangement," says FTC, prevents any price competition between manufacturers. Price, it adds, makes no reflection of any difference in costs or freight rates.

At press time, the tire companies were making no comment. They were still studying the complaint.

• • •

Florida Bans Sunday Car Sales, Wisconsin May Follow

The question of Sunday openings for retailers has come to the fore again (BW—Jun.8'57,p62).

Florida's Gov. Leroy Collins this week signed into law a controversial bill requiring auto dealers to close on Sunday, starting immediately. **A suit to test the law's validity is likely to be filed in the near future.**

Wisconsin's legislature has sent a similar bill to its governor. There's no clue yet to what action he will take.

Meanwhile, two Texas cities are trying out a Sunday closing program for car dealers on a voluntary basis. Ft. Worth new car dealers started it. Dallas new car dealers followed suit with a test to last 90 days.

The Texas legislature had vetoed a bill that would have accomplished the same purpose.

• • •

Premium Foods Venture Into Supers, With Miss Schrafft for Chaperone

A new venture into supermarket selling of premium foods (BW—Aug.23'58,p55) is under way. Frank G. Shattuck Co., big New York-based restaurant chain, last week finished installing "Schrafft's Quality Isles" in three test stores: two Bohack stores and one Safeway, in the New York area.

Along with the Quality Isle—featuring some 200 fresh and frozen food items from Schrafft's kitchens—goes a smartly uniformed Miss Schrafft for each store. She is a Schrafft employee, trained to help housewives with their menu problems.

Because the plan is still in the testing stages, the companies have not yet worked out final financial arrangements. In Safeway's case, though, the store collects a percent of Schrafft's Isle's profits.

Initial response was called terrific. The managements believe there is a real market for premium foods if the store has the right location for them.

The stores expect another plus in the personal services that Miss Schrafft provides. Supermarkets have been unhappily aware for some time that getting warmth and personality into their big, machine-like self-service operations is tough (BW—Jun.14'58,p57). Even though Miss Schrafft is on another company's payroll, she might do the trick.

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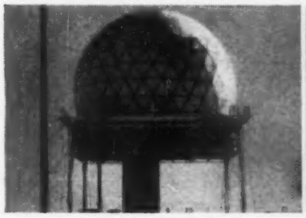
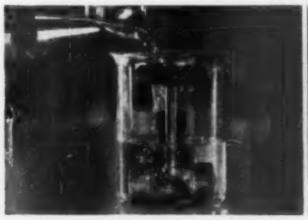


Build a big plastic bubble that shrugs off 150-mile-an-hour winds but lets radar waves through and resists fire.

Power a rocket with high-energy solid oxidants, developed by Hooker working with other leading companies.



Put a super-hard corrosion-resistant nickel plating on any metal shape without using electricity.

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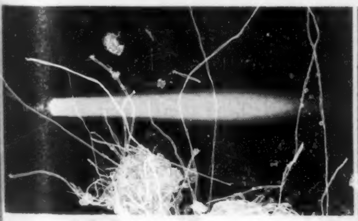

Line a rocket with [illegible] plastic so tough it [illegible] blast—keeps the metal [illegible]ing.

Make an insecticide, germicide, drug, dye, or nonflammable plastic—starting with **one** chlorine-loaded compound.

Lubricate with grease or oil that **won't** burn, or break down even in the presence of pure oxygen.

Degrease metal parts without having the bath go sour or require frequent cleaning out.

Install plastic ductwork that far outlasts metal under the bite of corrosive fumes, weighs much less, and can't contribute to a fire.

Set a new pace in building, with plastic foam light as a biscuit, strong as a board, that insulates, retards flame, costs less than other high-grade foams.

Make a detergent that wets better, dissolves faster, and stays free-flowing—because the phosphate in it consists of hollow beads.

Make plastic pump housings, gears, and even car transmission parts that outwear steel—and cost less, because they're molded rather than machined.

If you'd like information about any of the Hooker products referred to here, write us at 106 Forty-seventh Street, Niagara Falls, N. Y.

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LABOR

Labor Looks for Trouble Ahead

● **Leaders at industrial union parley find unions' negotiating position slipping, employer attitudes hardening.**

● **Call is echoed for a "summit meeting" of management and labor to assure peaceful relations.**

● **But, basically, unions see steel outcome as key to this year's bargaining, and will back USW to limit.**

Labor is "losing the collective bargaining battle to employers" this year, speakers at a union bargaining conference in Philadelphia reported this week. Their sum-up of the outlook: The workers' negotiating position is "deteriorating. . . . Trouble is ahead."

Ordinarily, labor bargaining or industrial relations conferences are cocky, confident meetings. The one in Philadelphia, sponsored by the AFL-CIO Industrial Union Dept., was troubled. It showed labor on the defensive against an aggressive management—not militantly pressing for new contract gains.

• **Keynote**—From the opening gavel, IUD leaders made no secret of their concern about "the realities of bargaining as they exist today." They said:

" . . . The institution of collective bargaining is being attacked by many major employers, certain academicians, politicians within both political parties, and others who see an opportunity to exploit this situation for their own personal ends."

It's time to "restate the values of collective bargaining," and to "inform the nation once again of its stake in the maintenance of the contractual relationship between labor and the employer," IUD said.

• **UAW in '58 . . .** —Labor's situation began to deteriorate last year, according to Walter Reuther, president of IUD and of the United Auto Workers. He told delegates that 1958 was the "most difficult bargaining year in more than two decades" for UAW.

The auto union was confronted with a solid alliance of major employers in its contract negotiations, he said.

Reuther charged that management and labor are "no longer making progress toward mature and responsible labor relations." Hostility is growing, he warned. And this "can only mean trouble—serious trouble—in the future."

• **. . . USW in '59**—"The United Steelworkers are experiencing the same hardened attitude that we did last year," the auto union president told grim-faced delegates. And, he intimated, this is only the beginning. Other unions, now going into the busiest bargaining period of the year, can expect "this same sort of thing" when they face employers, Reuther warned.

Later, David J. McDonald, president of the Steelworkers, echoed this warning. The industry is allied "in solid strength" to deny gains to its workers, McDonald charged; it is trying to "foment a strike that we don't want," hoping to "take away gains we have made in the past, over many years."

"We positively will not take a backward step in bargaining," he told the conference's 900 delegates, nearly one sixth of them from the steel union.

He acknowledged that the existing bargaining impasse makes the outlook for avoiding a steel strike "gloomy, indeed, but not hopeless."

Reuther, for IUD and the auto union, pledged "organizational, financial, and moral support" to the Steelworkers in the event of a strike.

• **"Summit Talk"**—Reuther repeated a proposal, advanced before by Arthur J. Goldberg, general counsel for USW, for a "summit meeting" of management and labor representatives to discuss problems arising from "this hardening of attitudes" in industrial relations.

This is necessary, he said, if the nation—and the economy—are to have peaceful labor-management relations.

The "hardening of attitudes" criticism came from others, too. Paul L. Phillips, president of the United Papermakers & Paperworkers, said that employers "seem to have erected an iron curtain between themselves and their employees—I call it a 'management rights' curtain." He referred to the growing insistence of employers on management rights clauses in labor agreements, to increase their authority.

Local union leaders—the largest concentration from auto, steel, and electrical manufacturing unions—confirmed from the floor that, as one unionist put it, "management has us on the run."

• **Can Labor Catch Up?**—The big question was: How can labor catch up?

It was obvious that—to the big industrial unions, at least—labor's champion is the United Steelworkers. They believe that if the powerful steel union, with a million members, can win in a showdown joust, other unions will find the tilting easier.

If the steel industry wins in its hold-the-line test, then, the IUD conference seemed to agree, all labor faces new and serious fights.

This means two things:

• All labor will be behind the USW in its current contract fight to the finish—and, if it comes to that, in what could be a long, hard strike.

• Although contract negotiations are due to get under way shortly in other important industries, unions are expected to stall to await a windup in steel talks; nobody wants to undercut the USW's bargaining position—or sign for less in gains than the steel union might establish as a pattern.

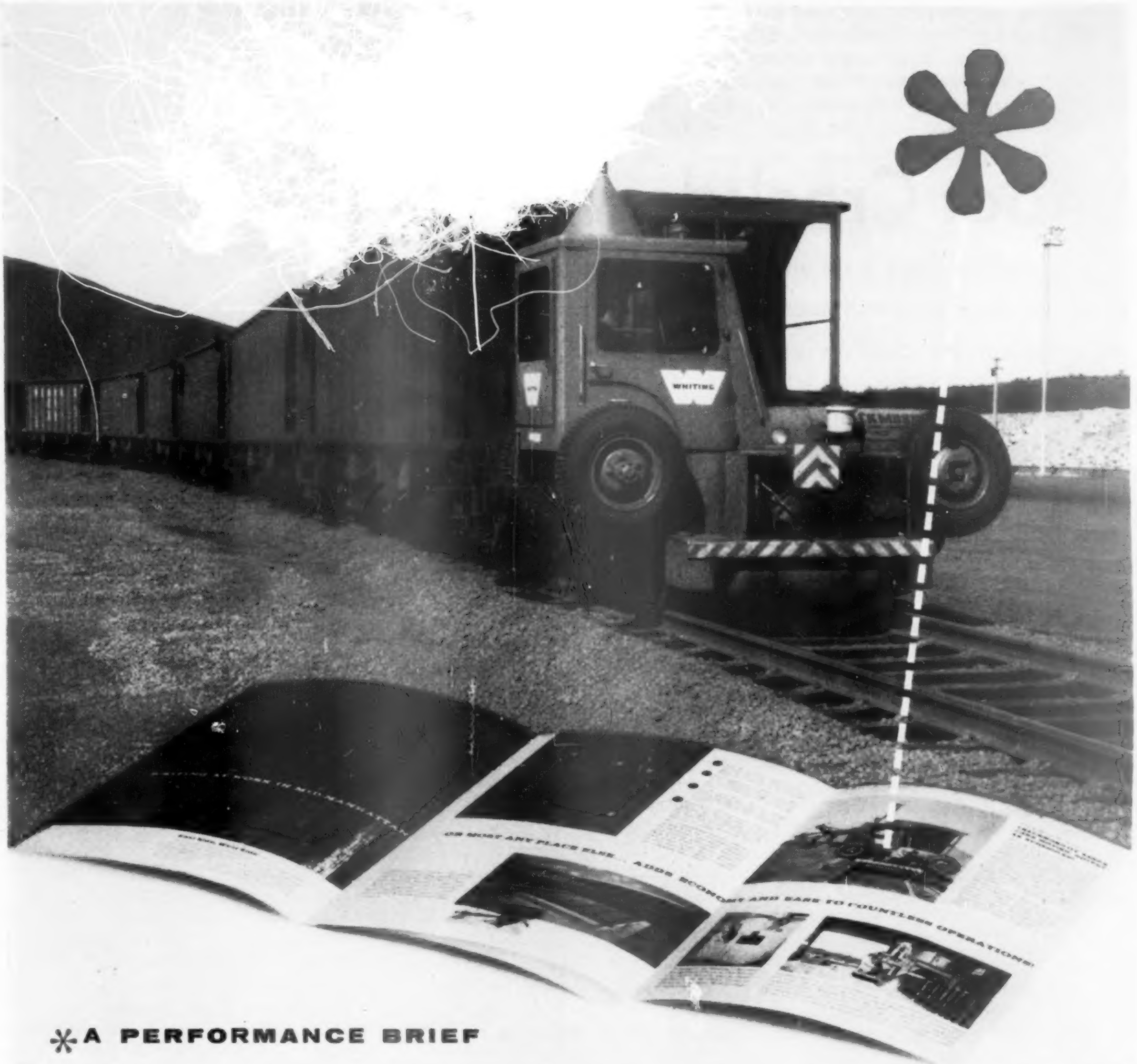
• **Negotiations**—Generally, unions have been winning settlements this year for just about the raises given in the first half of 1958—despite the talk of "hardened" employer positions. Median settlements are in an 8¢ to 10¢ range.

However, there have been more strikes and lost time (BW—Jun.13'59, p98), and more infighting on management rights and other nonwage issues. As the president of the Papermakers & Paperworkers reminded the conferees in Philadelphia this week, much of the trouble on the labor-management front now can be traced to employers insisting on tighter contracts—and unions resisting any concessions that might be used to cut into seniority, job assignment, and other "rights" enjoyed by the unions.

Here's the bargaining outlook for the next few months:

Aluminum companies and the United Steelworkers and the Aluminum Workers International Union, also AFL-CIO, got down to bargaining—technically—this week. Union demands will be "substantially the same as in the steel industry," a USW bargaining representative said last week. So no real movement is expected until there's a steel settlement.

Rubber negotiations will center on a United Rubber Workers demand for a "substantial" raise and company-financed supplementary workmen's compensation for workers who are disabled—to give them 80% of regular pay for up to 26 weeks. The rubber union announced recently that its long Goodrich and Firestone strikes, settled a week



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ago, won't make its members any less militant for pay boosts.

Meat packing. The United Packinghouse Workers and the Amalgamated Meat Cutters will cooperate in bargaining, but not negotiate jointly, in coming contract talks involving wages and other issues. The Amalgamated said it isn't "saber rattling," but it will resist negotiations "in any bitter, uncompromising, and propaganda-filled fashion, as the steel companies are doing it." The UPW wants shorter hours and work guarantees along with a raise.

Nonferrous bargaining, particularly in the copper industry, has appeared pointed toward a Mine, Mill & Smelter Workers strike on July 1—but a delay seems possible, with MMSW sitting tight to watch developments in steel.

Labor Crackdown Worries Unions

Justice Dept.'s record of prosecutions and convictions of union racketeers and court ruling on Teamsters monitors set a precedent for controls unions are opposing in Congress.

Amid all the hullabaloo in Congress over reform legislation, prosecutions of labor racketeers under existing laws are suddenly producing startling results.

The Justice Dept. has a sizable list of criminal convictions—134 to date. At the same time, the prosecutions are turning up important legal precedents in the control of union corruption.

Several of these go directly to the heart of the current hassle in Congress over labor legislation. Surprisingly, they open the way to a system of public supervision of labor leaders that AFL-CIO Pres. George Meany and associates are fighting against on Capitol Hill.

• **Policing O.K.'d**—Last week, two developments pointed this up clearly:

• The U.S. Court of Appeals affirmed the right of courts to police the affairs of the International Brotherhood of Teamsters; in doing so, the court upheld the first suit of members against alleged corrupt union leaders.

• Atty. Gen. William Rogers promised Congress that the Justice Dept. will make continuing use of antitrust laws against racketeers because of the good results in prosecutions so far.

• **Reform Prospects**—The outlook is still uncertain for a new reform law that would expose union affairs to public view, and—where necessary—clear the way for prosecutions. But, last week, the tempo picked up on Capitol Hill.

From the outset, the legislation has been under sharp crossfire. The Senate-passed Kennedy-Ervin bill has roused the opposition of both management and labor groups. Their attack brought predictions that no legislation would come out of the House.

But, last week, the House Labor Committee voted to take up reform legislation immediately, rather than wait for reports by two slow-moving subcommittees. By a 20-to-10 vote, a majority combination of conservative and moderate Democrats and Republicans forced the issue—almost assuring that the House will get to vote on a labor reform measure this session.

Even if this happens, it's a question whether the House and Senate can agree on one version of labor reform this session. Time is short, now. So prosecutions—and the precedents they are making in the courts—become increasingly important.

• **Attack Scores**—The two prosecution developments last week were fresh evidence that the attack on labor corruption is now producing a score after two years and many frustrations.

Less than a year ago, the Justice Dept. and the McClellan antirackets committee exchanged words over the few convictions of those charged with illegal activities by the committee. It was different last week. When Rogers went before Congress to ask for $200,000 to set up a permanent criminal division to fight racketeers, he cited the antitrust laws as the likely vehicle to continue the crackdown on corruption.

"The results to date have been good," he noted.

• **Hoffa Setback**—In the Court of Appeals, the outcome was also good for 13 dissident Teamsters who had brought suit against Teamsters Pres. James R. Hoffa and the union's executive board, on the ground that the officers had been fraudulently elected. As a result, a lower court appointed a board of monitors to supervise affairs of the Teamsters; it allowed Hoffa to serve as provisional president. Hoffa questioned the monitorship in a series of legal maneuvers—but lost.

The appeals court not only upheld the monitorship; it also put additional teeth into it. The court ruled that the monitors could propose cleanup moves within the Teamsters and that Judge F. Dickinson Letts—who set up the monitorship—could give these suggestions the force of law through court orders. If Hoffa and associates refuse to comply with them, they can be held in contempt of court.

• **AFL-CIO Alarmed**—These new developments alarmed AFL-CIO leaders. They felt that prosecutions are producing legal precedents for a pattern of action labor has been fighting against on Capitol Hill—and even if they win in Congress, the victory may be negated when they get into the courts.

They are concerned most about the suit against Hoffa's Teamsters, although ordinarily the federation is not unhappy over curbs applied to the truck union chief. But, in this case, rank-and-file union members went into court to stop Hoffa, rather than going through the union's constitutional processes. This is a key issue in the AFL-CIO's fight against the proposed federal labor "Bill of Rights" that would open the way for union members to sue the leadership.

Federation lobbyists are demanding, in the current consideration of reform legislation before the House Labor Committee, that this section be dropped. They claim that union constitutional processes protect the union members, and that union officials would be subject to disrupting, irresponsible suits.

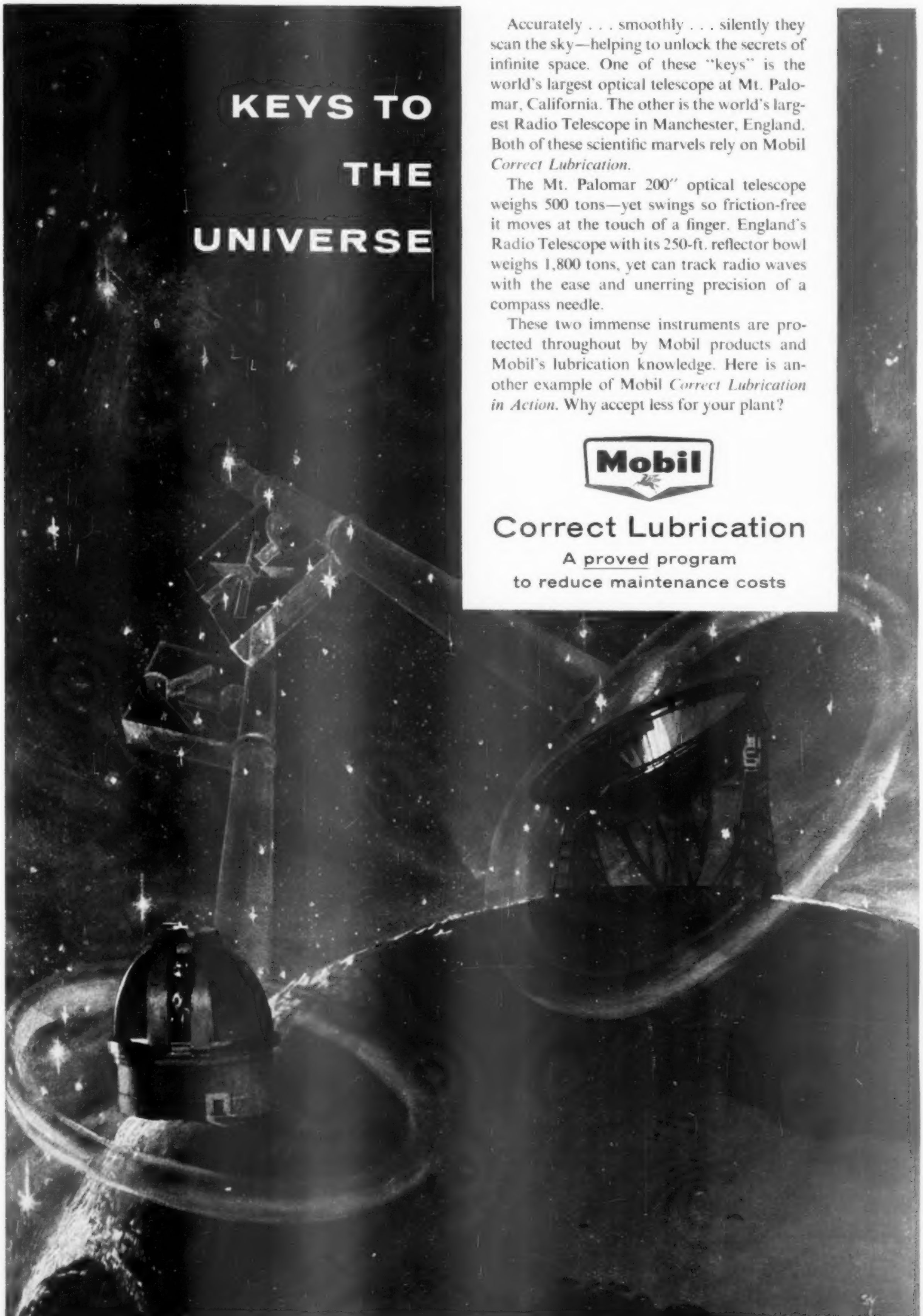
The unanimous verdict of the Court of Appeals helps to cement this practice—recourse to courts against union leadership—as a precedent that might be used by other union members. Hoffa has announced that he will appeal the decision to the Supreme Court.

• **Antitrust Cases**—In pushing the antitrust laws as a weapon against labor abuses, Rogers said the target would be those who control the markets of small businessmen through abuses of union power. This has already run into heated union opposition in one case. The opening antitrust thrust came against the International Ladies' Garment Workers' Union's long-established practice of limiting the number of contractors who can be used for work contracted out by unionized jobbers.

When the indictment was issued against the union in New York and Pennsylvania, ILGWU Pres. David Dubinsky and AFL-CIO's George Meany protested that it was an attack on an age-old garment industry system—established to eliminate sweat-shop conditions in the industry.

The Justice Dept. followed up with several other antitrust prosecutions the latest resulting in an indictment of four Teamsters officials in Los Angeles on charges of restraining trade in yellow grease—a substance used primarily in foreign countries in making soap.

Labor leaders have long fought attempts to place unions under the general antitrust restraints that might be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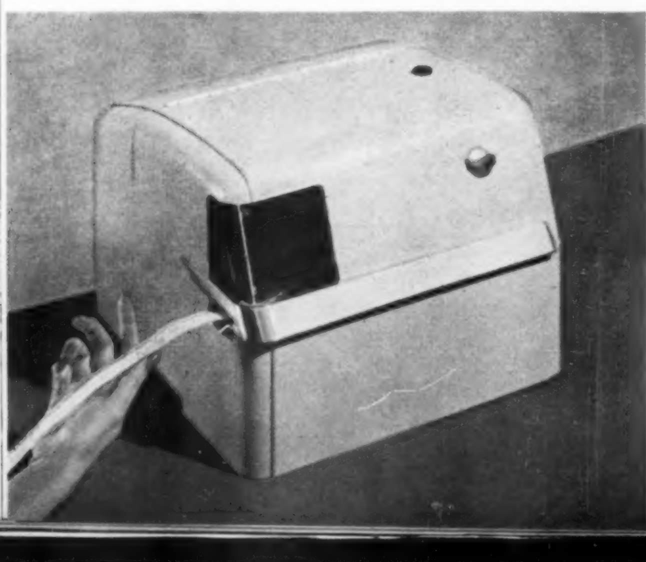
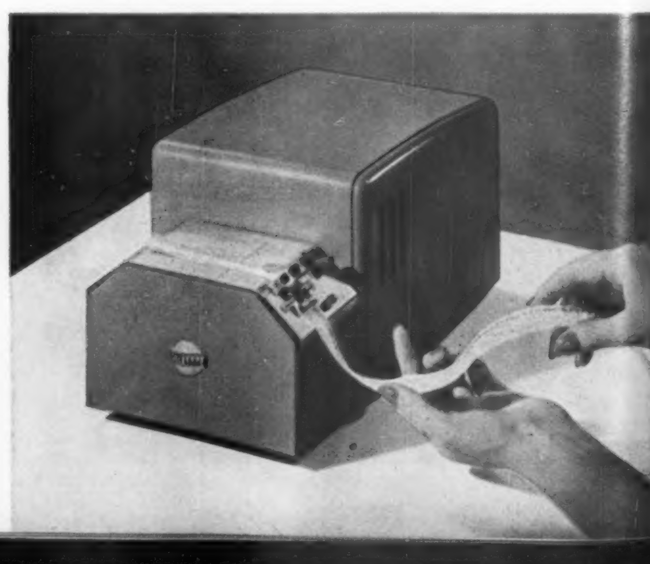
Teletype Model 28 Receive-Only Page Printer A message receiving unit (without keyboard). This is "terminal" equipment, for use where two-way communication is not necessary. No attendant is needed. Produces a printed record on plain paper or multi-part business forms. Table models of this unit and the send-receive set at the right are also available.

Teletype Model 28 Tape Punch Receives incoming electrical signals, punches a 5-level "common language" tape, and prints the data right on the tape, for easy identification and handling. This unit is used for message relaying . . . for integrating data from several sources into a single tape . . . and for providing punched tape as a by-product of send-receive operations.

Teletype Model 28 Tape Reader This is a sending unit. Reads punched tape and instantaneously transmits data to local or remote receiving equipment. As with all Teletype transmitting units, data may go to one destination or a number of destinations simultaneously—either nearby or thousands of miles away.





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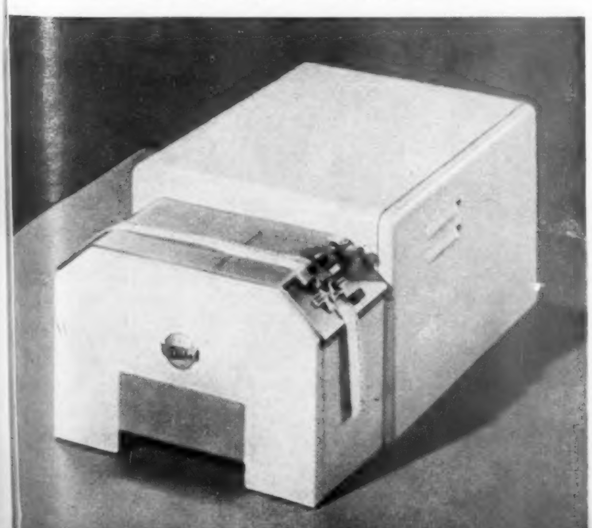
Teletype Model 28 Tape Reader—Twin-Shaft Unit is similar to tape reader at left. Besides reading punched tape for on-line transmission, twin-shaft reader-distributor design offers facilities for tape transmission to business machines and direct read-out, from business machines, for on-line transmission.



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Tires posed no problems for the Wright brothers—they used skids. But tires figure vitally in flying today, with more than 100 tons of jet slamming into abrasive runways with smoking impact. To find tires tough enough to withstand these punishing landings, major airlines and military plane makers turn to Firestone for the development of high-performance tires. And they turn to Firestone to fill still more of their jet-age requirements—for everything from engine components to colorful, durable vinyls for cabin interiors. In the broad areas of research and development, as well as in manufacturing, Firestone has continuously served the vital needs of America's growing economy. Making the best today still better tomorrow is a Firestone promise. And it's a promise that's being made good in six major fields of industry: rubber, metals, plastics, synthetics, textiles and chemicals.

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MAKING THE BEST TODAY STILL BETTER TOMORROW

used, for instance, to break up industry-wide unions. While the antitrust extension is being promoted to some extent in reform proposals, it isn't expected to be written into legislation.

The record of Justice Dept. prosecutions has been building up from a slow start. The latest large action came several weeks ago when a grand jury indicted 27 men who attended the now-famous meeting in Appalachin, N. Y. Some of those indicted had previously been charged with violating the Taft-Hartley Act in union cases—and all were accused of attempting to obstruct justice.

The total Justice count since 1953 is 134 convictions, including such labor leaders as former Teamsters Pres. Dave Beck for misuse of union funds; Joseph P. Ryan, former president of the International Longshoremen's Assn., on charges of making an illegal payoff. The convictions are for violations of the Taft-Hartley law, the Hobbs Anti-Racketeering Act, and criminal tax laws.

The War Over Right-to-Work Laws

Employers group maps new drive in top-secret sessions that leaked. Labor seeks repeal of existing statutes.

Neither labor nor management has any intention of sitting tight in the right-to-work fight. The AFL-CIO recently announced plans to seek the repeal of laws barring the union shop in a number of states. Last week, industrial leaders gathered in Kansas City for a secret conference began mapping plans to broaden their campaign in 1960 —despite setbacks in 1958 elections.

• **Four States**—The executives, none of whom was identified, discussed the strategy for future campaigns. Afterward, a spokesman said that "certainly" union efforts to repeal right-to-work laws will be strongly opposed. He predicted that the group will campaign for new laws in at least four states.

The spokesman would not speculate on which states would be chosen.

"There is no point in giving away our strategy this early," he said. "We want to keep them (the unions) guessing for as long as we can."

• **Name Change?**—The group discussed the possibility of dropping the words right-to-work in connection with their campaign because of the bad connotation that labor has given the term. Among others, freedom-of-association and voluntary-union-membership were suggested as substitutes. The planning group rejected them.

Reed Larson, of Washington, former director of Kansas for Right-to-Work, Inc., now director of the National Right-to-Work Committee, explained: "Right-to-work is as good a term as any because it tells what we're after," he said. "Labor ridicules the words and says they do not represent the meaning of the laws we have—but if we try to change the designation of the laws, they cry 'fraud' and say we are trying to cover up our real motives."

The right-to-work forces tried to change their name in New Mexico, Larson said. They began "getting letters accusing the group of deceit."

• **Labor Law Stand**—The conference criticized the Kennedy-Ervin bill, passed by the Senate and now in the House, as "Trojan horse" legislation that gives labor more power instead of providing labor reforms. The group supported the Smith bill (H. R. 3) which, its spokesman said, would clarify the right of states to adopt and enforce "necessary" labor laws.

The meeting in the Hotel Muehlebach was held with cloak-and-dagger secrecy. More than 60 representatives of groups and industries interested in right-to-work legislation registered as delegates to the "E. M. Greb meeting." Greb operates an X-ray equipment supply company.

The top secret nature of the meeting was stressed as necesary for the continuing campaign to "pass and protect" right-to-work legislation.

Despite elaborate precautions, word of the meeting slipped out. This resulted in a serious discussion of "leaks" in the opening hours of the conference, and charges that copies of correspondence were "filched from files of some industry" by a union member-employee and turned over to labor representatives.

• **COPE Meetings**—AFL-CIO's Committee on Political Education recently held regional conferences on right-to-work legislation and other issues around the country. During these, COPE leaders announced that efforts will be made to repeal right-to-work laws in many of the 19 states that now have statutes that bar the union shop.

A repeal fight is planned in Kansas in 1960, by referendum, and in legislative sessions in Utah and Indiana in 1961. COPE is also studying plans for campaigns in North and South Dakota, Iowa, North Carolina, Nevada, and a number of other states.

Although labor defeated five of six right-to-work proposals voted on in 1958, COPE leaders warned that labor faces "a continuing threat of attacks on the union shop." END

THE LABOR ANGLE

Showdown on Productivity

A FEW DAYS ago the wage policy committee of the United Steelworkers issued a statement containing 10 words that are a key to a major problem involved in steel bargaining.

The committee said of the companies' bargaining position:

"They proposed . . . that our present contracts be extended for one year without any changes in wages or other benefits and **without the annual increase factor contained in our previous agreements.**"

This is what USW Pres. David J. McDonald describes, at every opportunity, as a "minus zero" offer. Instead of adding something to workers' pay envelopes, it would "take away" gains they "reasonably" expect, according to McDonald. A raise based on the annual increase in past contracts is one of them.

ONE-THIRD of all major contracts today provide for deferred wage increases, based on a theory—if not an actual formula—that workers should share the rewards from gains in productivity.

General Motors and the United Auto Workers pioneered in the introduction of annual improvement factor—or productivity—raises in a long-term contract negotiated 10 years ago. GM and its union agreed that wages should go up annually by an amount roughly equal to the average increase in productivity in the economy, about 2% a year.

The annual improvement or productivity raise philosophy spread through the auto industry, then out from it. Annual raises geared to the average national productivity increase came to be considered a desirable wage policy. Now, many employers are beginning to wonder if their acceptance of the principle started them on a long uphill path they can't leave easily—if at all.

AS THE United Steelworkers wage policy committee statement shows pointedly, unions and their members have come to regard the annual stepup in pay as a fixture in their wage structure—the minimum in a new contract.

Recall, for instance, the situation in 1958 auto bargaining. The industry was determined to hold a line against labor cost increases. It bargained stubbornly. After its settlement last September, the industry said that it had "absolutely" held the line against any cost increases **not included in its expired 1955 contracts.** Its success in bargaining was in holding UAW to the level of annual productivity raises previously negotiated.

Other employers have run into a similar bargaining situation. They have encountered unions that take for granted that contracts will continue their 2% or 2½% productivity wage increases. And, so far, no major employer has succeeded in persuading a union to settle for less than the percentage or cents-per-hour under past agreements.

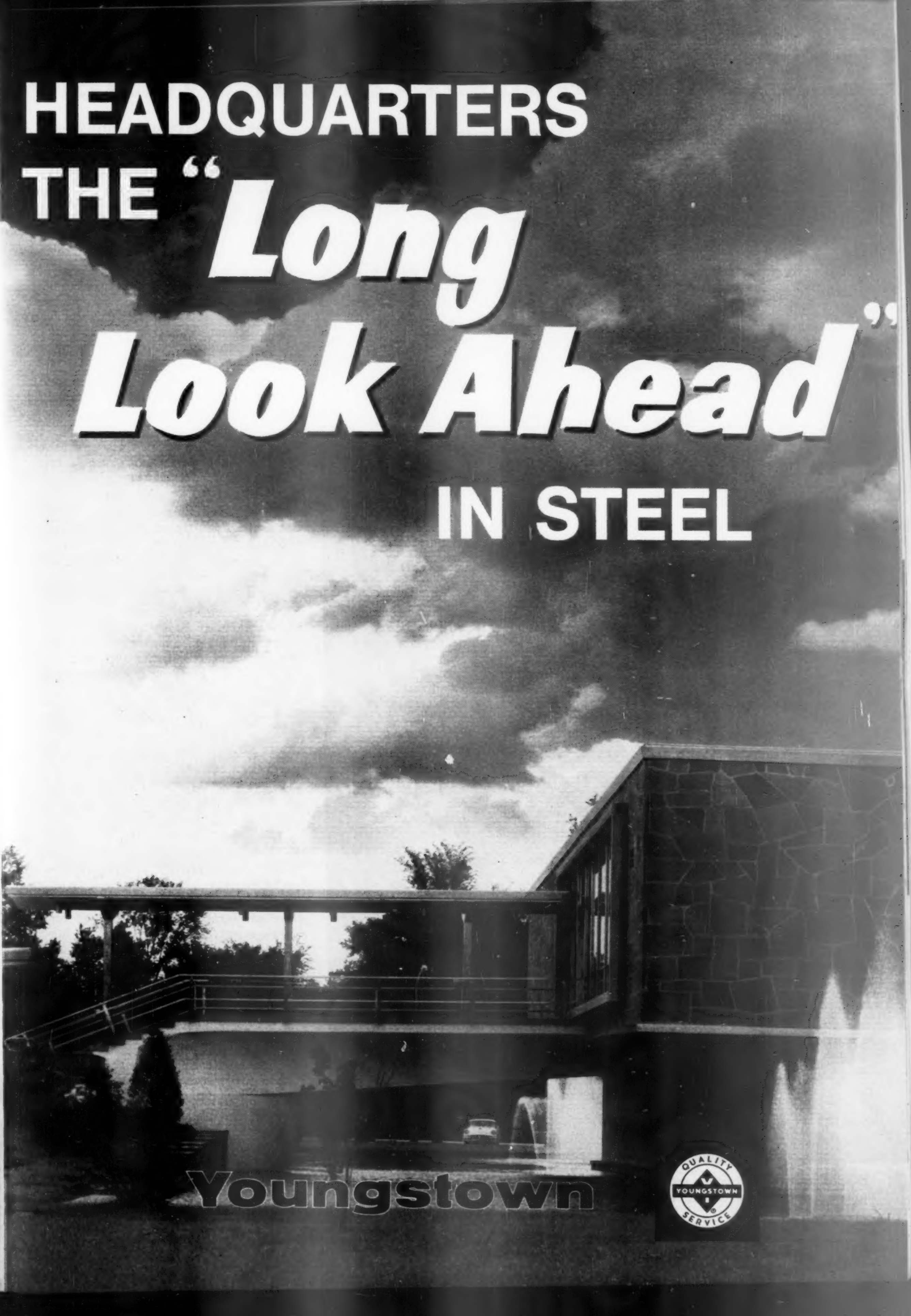
Now, it's the steel companies' turn to try. The attitude they face can be illustrated through the blunt words of a USW wage policy committeeman: "Hell, if we settle for less than we got in 1958 [an average 7.3¢ an hour] the boys are going to be on our necks for taking a pay cut. We got that much coming, anyway."

THE STEEL INDUSTRY will bargain hard against another 7.3¢ increase. But in 1956 it offered such an increase for this year—and next.

The industry's original proposals to USW in 1956 offered a five-year contract with raises averaging 7.3¢ an hour every July 1 through 1960.

USW insisted on a shorter contract, and the settlement in July, 1956, was for three years—but the 7.3¢ an hour average raise figure wasn't changed. Steelworkers collected that amount in 1957 and 1958. And they generally feel they've got that much—at least—coming this year and hereafter.

Other industries are watching, with partisan interest, steel's efforts to counteract this. There is a spreading reluctance about continuing to link wages and productivity through any "simple, ready-made formula" to be applied to all, without regard to wide disparities that exist between industries and companies and plants in any industry, or tends to suggest that all the gains from productivity should go toward wage increases.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Building Trades War on Waste

BOOM both in construction activity and in construction workers' wages underlines need to cut costs by fighting waste. Unions are experimenting in self-discipline.

They are trying to implement the "Ten Commandments" in which they vowed to eliminate featherbedding and other unnecessary practices.

A big construction project seems bewildering to an outsider. But the visible disarray is nothing compared to the complicated system of labor-management relations that governs the sprawling construction industry.

Instead of one union, the employer must deal with dozens, each with its own set of intricate rules and its own jealously guarded jurisdiction. Conflicts over jurisdictional claims—frequently tying up whole projects with prolonged walkouts—and the intricacy of working rules have helped pad construction costs with featherbedding, make-work, and other such wasteful practices. The mounting costs of these practices hurt not only the customer but the contractors and the unions themselves.

In St. Louis last week, construction management and labor launched what is hoped will be the first in a series of local joint conferences aimed at giving an added push to the year-old "Ten Commandments." This was a 10-point program adopted at the top level by the AFL-CIO Building & Construction Trades Dept. and the National Contractors Assn. The conferences will work "toward maintaining and expanding the construction market for construction people, through development of an ever more efficient product."

• **Practical Test**—What local implementation could mean to the industry was illustrated across the river in East St. Louis and Granite City, Ill., where the local building trades signed the "Ten Commandments" last year (BW—Jun.14'58,p11). They pledged themselves to eliminate featherbedding and shave unnecessary labor costs, as well as to permit unrestricted use of machinery on construction jobs.

The Granite City Steel Co., "as a direct result," announced it would build a major office building. The happy outcome, according to Fruin-Colnon Construction Co., is that the building "is four months ahead of schedule at the halfway mark."

"Much of the credit for this productivity," the company adds, "must be extended to the recently adopted 10-point statement of policy."

• **Wages Up**—Behind the anti-featherbedding drive is the familiar push of rising labor costs. Average wage rates in the industry, according to Engineering News-Record, a McGraw-Hill pub-

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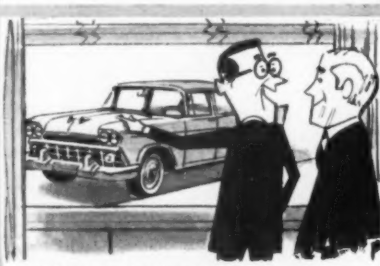

"Cheer up, H.B.," declared Fawcett. "Let's switch our fleet to Rambler. We'll save money on first cost and operating cost. Because Rambler has top resale, we'll save too, when it's time to trade or sell."

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BY ____________________

lication, are up 4.5% over a year ago. Further increases are certain, since summer is bargaining time for the industry.

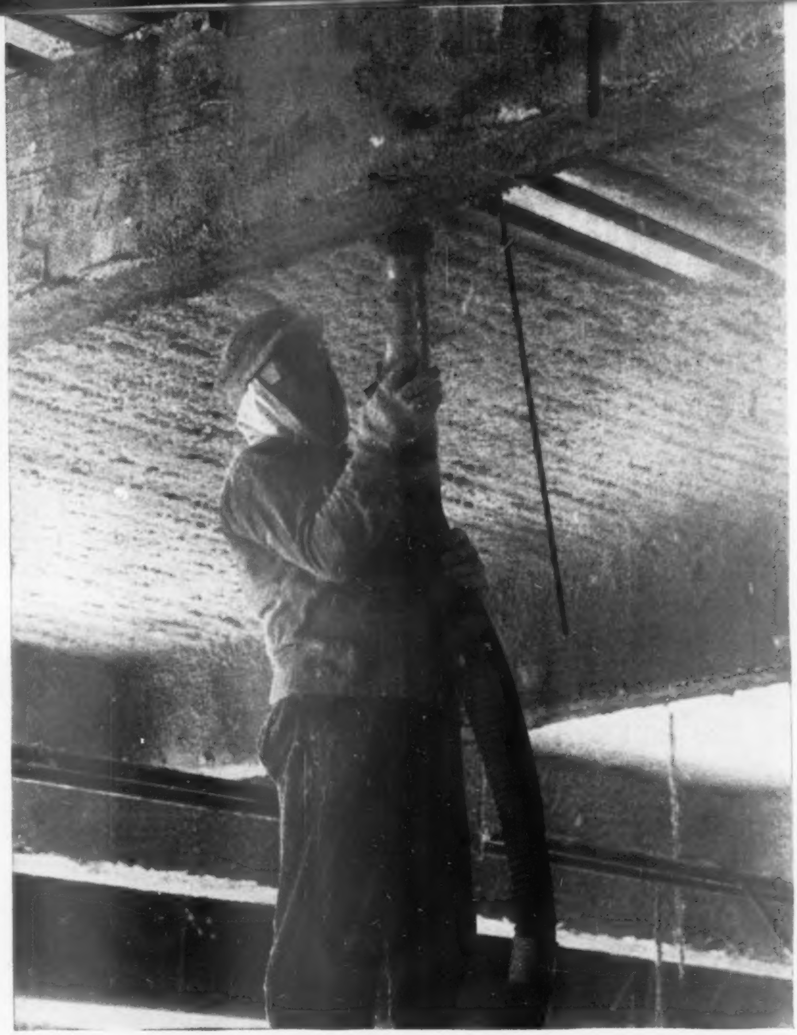
In comparison with other industries, the building trades are doing a bit better than their fellows. Increases are averaging 13.4¢ an hour in this year's contract settlements. This is a slight drop from the 14.5¢ and 16¢ of recent years, but the unions are still knocking down hefty increases here and there throughout the country.

In Chicago, the plumbers secured a 22¢ hourly hike on June 1, to bring the journeymen's scale to $3.95 an hour. Bricklayers with a 25¢-an-hour boost established a $4.07½-an-hour scale. In Houston, carpenters and cement finishers won gains of 18¢ and 17¢ an hour, respectively.

On the West Coast, San Francisco electricians negotiated a three-year contract providing hourly increases ranging from 49¢ to 57¢. Carpenters and cement masons get 22½¢ an hour effective June 15, and another 22½¢ an hour effective May 1, 1960.

• **Holding Gains**—With construction activity apparently set for an upward rise and wages climbing, contractors are anxious to hold down costs by retaining the gain in productivity scored during the recession. "We're getting more from labor," a Kansas City contractor says, "and we're getting it because competition for the jobs available is a little tougher." But employers fear that productivity gains will evaporate as activity increases unless:

• The building trades unions co-



NEW EQUIPMENT, such as this blower for applying coat of asbestos to make steel fireproof, can boost productivity. But it may bring costly jurisdictional tiff.

SKILLED CRAFTSMEN such as this plasterer are jealous of their jobs. Sometimes they force labor costs up.

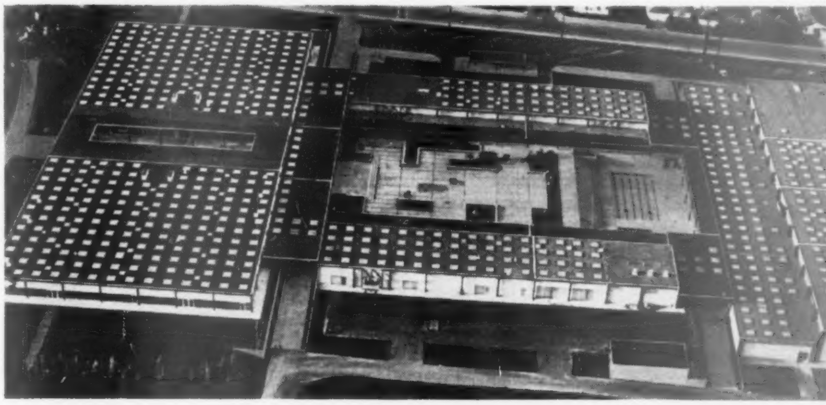
Permanent warehouse built at $2.00 a sq. ft.

It's hard to believe that this low-slung, glistening building owned by Chapman Chemical Company of Memphis, Tennessee, cost so little to build. Its length? 210 feet. Width? 100 feet. Secret of economy? No secret—Pole-Type Construction. Koppers Pole Buildings using *pressure-treated* poles, require no excavating, no costly foundation, no power erection equipment, no custom fabrication and no long, drawn-out erection time. Thus, they can cut building costs, 20, 30, sometimes 50%! And a Pole Building from one of Koppers "Qualified Contractors" is truly permanent . . . lasting as long as conventional structures. Maintenance is negligible. Find out how a Koppers Pole Building can be the answer to your dwindling construction dollar. Check the coupon.

No coupling needed with new Plastic Sewer Pipe

You just pop the end of one section into the hub of the next one and that's it. No adhesives, no solvents, no clamps. The plastic "O" ring you've put inside the hub automatically seals the joint and you're ready for the next section. This new hubbed sewer pipe (also comes perforated for drain pipe) is made of SUPER DYLAN® high-density polyethylene, a product of Koppers Plastics Division. It is fabricated by Pyramid Industries, Inc., Erie, Pa.

Cost? One-third the price of cast iron pipe—even less expensive than clay pipe. *Efficient?* Look: a 10-foot length weighs only 6 pounds, so it's easy to handle. It can be cut with a handsaw, and needs no tapering. Once in the ground it completely ignores waste acids, alkalis, rust, rot and corrosion. And it's resilient enough to take all kinds of physical punishment. *Applications?* You name it, but here are a few— sewer to house connections, house to septic tank, downspouts, industrial sewage lines for raw sewage and special wastes, septic tank disposal fields, storm drains, foundation footing drains, land and roadbed drainage. Perhaps SUPER DYLAN can improve your product. Check the coupon for more information.



How to build a roof around 700 windows

The helicopter hovers to get the picture and you're tempted to start counting windows. But rather than run out of gas at 500 feet, you decide to take the contractor's word for it—there are more than 700 skylights in the roof of Hillsdale High School, in San Mateo, California. But what kind of roof can have 700 potential holes in it, and not leak? A Koppers Coal-Tar Pitch Built-Up Roof—alternate layers of coal-tar pitch and tarred felt, topped with slag or gravel, which form a continuous membrane—completely water-tight—over the roof surface. No seams, no joints. No place for a leak to start. And even if small checks and cracks should appear, the self-sealing coal-tar pitch flows together and heals itself.

Coal-Tar Pitch Built-Up Roofs, produced by Koppers Tar Products Division, are so good that they can be permanently flooded without danger. Hundreds of them, throughout the world, have already far outlived their 20-year guarantees. Need a truly waterproof flat roof? Get full details by checking the coupon.

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". . . the 'Ten Commandments' are effective if—and when—unions and employers put on the heat . . ."

STORY on page 68

operate in keeping jurisdictional fights to a minimum.

• The unions cut out "extras."

Under the "Ten Commandments," of course, the unions have agreed to forswear such practices as extended coffee breaks, excessive travel time pay, non-working stewards, and limits on production and the use of power tools.

• **Hard to Enforce**—But implementing the "Ten Commandments" is something else again. Contractors want them written into local agreements. But most officials balk at this. "If we sign the statement," a St. Louis building tradesman says, "we admit we were guilty. . . . There are those of us who feel we never have been guilty of doing the things the ten points criticize."

The lack of enforcement machinery is illustrated in negotiations between the Los Angeles Contracting Plasterers Assn. and the Plasterers. These talks show that local unions are in reality pretty much free to do as they please about the "Ten Commandments."

One dispute in the Los Angeles negotiations revolves around the use of plastering machines, which were first permitted two years ago after a big hassle. Now the union is demanding that a crew of five be hired for each one of these machines; the employers contend only three are needed. The employers also want to put a man in the center of the room with a hose to wet down walls—a crucial part of the plastering job. He can quickly spray all four walls and the ceiling from one position. But the union says the job should be done with a bucket and brush to keep excess water off the floors. This would take more time and more men. The employers, arguing that excess water is not a problem, cry: "What about the 'Ten Commandments?'"

The answer seems to be that the code is most effective in cleaning up practices that are not embodied in a contract. It is also effective if—and when—the heat is put on. Last January, a team of contractors and union chiefs went to Baton Rouge, La., to clean up excessive building costs rising out of such practices as extended coffee breaks, excess travel time, and the like. The committee was so successful that it is making a similar foray to Lake Charles, La.

• **Solid Front**—But the industry has more than a promise of cooperation from the unions to back up its demands for a tightening up of wasteful work practices. Employers are banding together to strengthen their collective bargaining posture. This realignment, they feel, is essential to counter area-wide bargaining powers possessed by some of the unions. The unions use these powers to play one employer association off against another.

Upstate New York builder associations have merged into a single, more effective group. A Northern California Home Builders Conference serves the interests of five member associations, while Northern and Central California chapters of the Associated General Contractors have proposed a central labor committee to negotiate contracts.

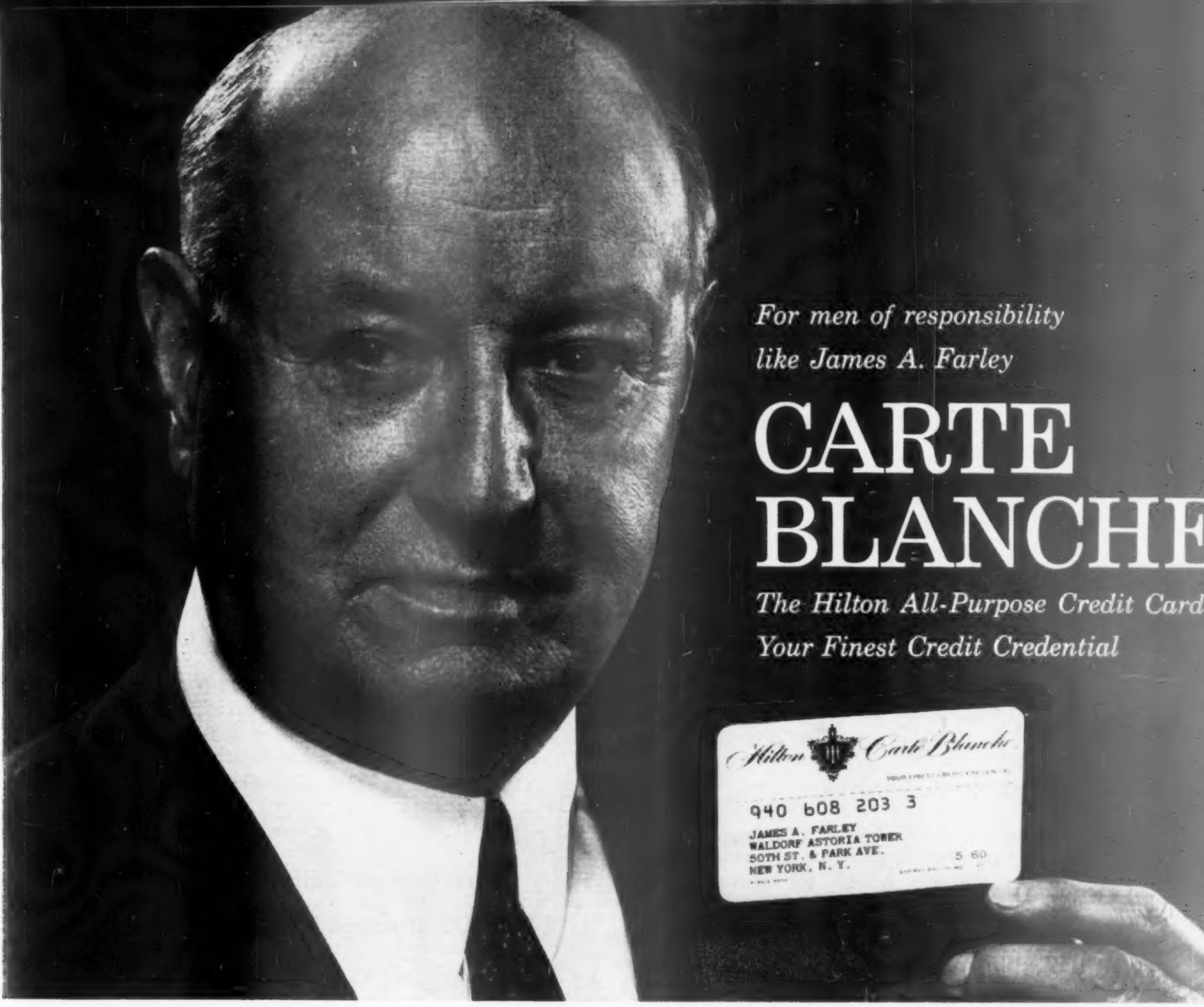
Reinforcing this development is the loosening up of hiring hall practices in the industry. The application of Taft-Hartley prohibitions against the "closed shop" has given construction employers more freedom on hiring and firing. "The responsibility for productivity," says A. R. Woolley, manager of the Salt Lake chapter of the National Electrical Contractors Assn., "is now back where it belongs, in the hands of management."

• **Give and Take**—In addition, the building trades unions—as well as the contractors—are feeling the pinch of competition from industrial companies that do their own construction work. The industrial unions have been at least partially successful in forcing employers to use in-plant work forces on construction and maintenance jobs the craft unions feel belong to them. Concerned over this "job poaching," the craft unions have cut down on their own feuding to tighten their ranks against the industrial unions.

Because of this—and a fear that industrial concerns will use their own work crews for additional construction—the building trades unions have been willing to cooperate with employers in seeking ways to enforce the "Ten Commandments". But cooperation is a two-way street. The various employer groups have agreed to support the unions' request for Taft-Hartley changes that would support current hiring practices and give the unions the right to sign contracts before work starts.

William Dunn, assistant director of the Associated General Contractors, says the "Ten Commandments" have had a "good effect." But, he continues, "It's one of those things you can't evaluate in precise terms." He also says the effect is showing up "mostly in what the unions aren't demanding. They aren't asking excess traveling costs and are holding up on additional demands. . . ."

The unions, according to a building trades spokesman, "are the first to concede that the 'Ten Commandments' are not universally lived up to. But give us a little time and patience. These are the results of years of accretion. They can't change overnight." **END**



Above, Mr. Farley dines at the Belvedere Restaurant in the Continental Hilton, Mexico City, which honors CARTE BLAN(

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In Labor

• • •

Ford Workers Idled by UAW Strike Win $1-Million UC in "Canton Case"

Some 10,750 Ford Motor Co. employees in Michigan will collect more than $1-million in back unemployment compensation—an average of close to $100 each—within a few days as a result of the U.S. Supreme Court's refusal to act on a question of their qualifications for state UC payments.

The benefits stem from the controversial, drawn out "Canton Case" of 1953. During a labor dispute, the United Auto Workers struck a Ford plant in Canton, Ohio. The shutdown there closed plants and idled Ford workers in Detroit. They claimed unemployment compensation.

Ford and the Michigan Employment Security Commission contended that workers thrown out of work by a strike by the same union in another plant of the same company in another state shouldn't be paid employer-financed UC benefits. **The company—and auto industry—argued that it would give a union a powerful new weapon, the ability to shut down an entire company with a relatively cheap strike against one of its key plants.**

The Michigan Supreme Court ruled against the Commission; it held that workers idled in a plant not directly involved in a strike may qualify for unemployment checks. On appeal, the U.S. high court refused to intercede because "no substantial federal question" was involved.

The back UC payments will be made—but **the fight will go on, industry spokesmen said, against a policy which "requires an employer to finance a strike against itself."** The Michigan legislature now has a bill before it which would forbid unemployment pay in all similar situations.

• • •

Three-Year Strike Continues as URW Awaits Ruling on Appeal From NLRB

Picketing continued at the O'Sullivan Rubber Corp. plant in Winchester, Va., this week in a United Rubber Workers strike that began May 13, 1956. URW reported "spirit is still high" among Local 511 members who quit work in a contract dispute. But, the O'Sullivan plant is operating "normally" now.

Unions cite the O'Sullivan walkout as a demonstration of how the Taft-Hartley Act can be used against labor.

URW workers in the O'Sullivan plant voted 355 to 2 for a strike in May, 1956. Shortly after the walkout, the plant hired replacement employees and resumed operations. Later a decertification petition was filed with the National Labor Relations Board. With strikers barred from voting under T-H provisions, URW lost plant representation rights in the NLRB poll.

The strike has continued, technically, despite an NLRB order to the union to end picketing and to discontinue a labor-supported boycott of O'Sullivan products. The URW has appealed the order to federal courts; picketing is continuing pending a decision.

• • •

Disabled Denver Football Player Wins Second Award as Employee Compensation

A University of Denver football player has received another $5,915 in workmen's compensation—over an original $4,636—because he is now 50% disabled as a result of a back injury suffered during spring football practice in 1950. **A Colorado court again ruled that the player must be regarded as an "employee" of the University.**

Ernest E. Nemeth went to Denver as a football player, with meals furnished and a part-time job on the campus. Injured in a practice scrimmage, he was dropped from the grid squad, and the meals and campus job were discontinued. **He claimed workmen's compensation, as a University employee. The case went to court when the insurer resisted the claim.**

A referee decision, now twice upheld by the Colorado Supreme Court, said it is "inescapable" that an "employer and employee" relationship existed—the "same as that which has existed between schools and players ever since football entered the ranks of big business."

• • •

High Court Rejects Teamsters' Appeal In $100,000 Damage Award Case

Two U.S. Supreme Court actions this week affected labor.

- **The Teamsters lost a battle to avoid responsibility for a $100,000 damage award against a local union.** The high court turned down a Teamsters appeal—in effect upholding the lower court—of a Utah court ruling that the international and its Western Conference must share liability under Taft-Hartley for a local's secondary boycott picketing that ruined the business of an Amalga, Utah, trucking firm.
- The high court also ruled that **the National Labor Relations Board, in considering an unfair labor practice case, may place substantial reliance upon events that occur after charges are filed.**

The decision reversed a lower court ruling in a case involving the Fant Milling Co. and the American Federation of Grain Millers. NLRB ruled the company had refused to bargain in good faith; the board based this in part on a wage boost made by the company after the union filed charges.

A lower court held that NLRB could not use the wage hike as evidence since it was not covered in the charges made by the union. The Supreme Court, however, decided that "the board is not precluded from dealing adequately with unfair labor practices which are related to those alleged in the charge and which grew out of them while the proceeding is pending before the board."

In Finance

• • •

British and German Interest Rates Expected to Start Upward Again

The gap between U. S. interest rates, which have been rising, and continental European rates, which have been falling, may start narrowing again.

Interest rates in the U. S. are continuing to climb. This week, General Motors Acceptance Corp. and other large sales finance companies boosted the scale of rates they pay on commercial paper sold directly to investors. The new rates range from 3¼% for the shortest maturity to 4% for the longest, which represents—in most cases—a hike of ¼% over previous levels. Rates in most European countries, moreover, appear to be reversing their downward trend and will probably rise at a fast pace.

The Federal Reserve's discount rate of 3½% is above the German rate of 2¾% but below the Bank of England's 4%. However, there's talk that both German and British discount rates, which had been reduced to counter economic declines, may be pushed up again.

Any move toward higher rates in Europe will probably cut down on the amount of foreign funds seeking short-term investments in the U. S. Already, foreign time deposits at U. S. banks, which pay 3%, are reported to be dwindling as investors can get more than 3¼% on U. S. Treasury bills. Last March, the Federal Reserve turned down a request by the Chase Manhattan Bank to raise its rate to 3¼%. Now other banks are reported requesting a hike, claiming that the time deposit rate is out of line.

• • •

Timken Wins Investors' Support For Merger With British Affiliate

Timken Roller Bearing Co. has swept to an easy victory in its drive to acquire 100% control of its subsidiary, British Timken, Ltd.

In April, Timken offered \$30.5-million for the 46% minority interest in British Timken (BW—Apr.25'59, p125). Initially, however, some English institutional investors who held large blocks of the stock were chilly to the offer, despite the fact that it was above the market price. Partly due to the efforts of S. C. Warburg & Co.—the same house that masterminded Reynolds Metals' battle for British Aluminium (BW—Jan.17'59,p59), Timken was able to announce last week that holders of 97% of the minority stock had accepted the offer.

Under British law, the balance of the stock must be sold to the company if it is not tendered within the next four months. Once Timken has 100% control, British Timken will call its outstanding preferred stock—at a cost of \$3.15-million, which was included in the original offer—and the two companies will merge.

Timken has been forced to buy up the minority interest because of a 1951 Supreme Court ruling which, in effect, required Timken to compete with its subsidiary. At the time, Timken owned only 30% of British Timken's stock, and, in consequence, the Supreme Court said that price-fixing and market-division agreements between the Timken companies were illegal. This competition, Timken says, resulted in a costly duplication of facilities and the loss of sales to competitors. With the two companies merged, the company expects substantial cost savings and a better competitive position in European markets.

MORE NEWS ABOUT FINANCE ON:

• P. 80—How Tight Money Is Hurting the Canadians.

• P. 88—Co-op Housing Enjoys a Renaissance in New York.

Ford Motor Co., which has offered to buy up 775,628 shares of the Class A Stock of **Ford Motor Co. of Canada, Ltd.,** and 30,208 shares of its Class B voting stock, reported this week that it had received tenders for 732,952 shares of Class A stock and 5,168 shares of Class B. This means that Ford will go through with its proposal to buy the shares at \$188 each (BW—May30'59,p29). Ford will retire all of the Class B shares—it already owns 56.8%—and have a single stock with voting rights. If all the Class A shares are turned in, the deal will cost Ford about \$151.5-million.

• • •

Kaneb's Complex \$10.8-Million Financing Tailored to the Lenders' Special Needs

The Kaneb Pipe Line Co., a small (1958 operating revenue: \$2.2-million) common carrier of petroleum products in Kansas and Nebraska, last week completed a \$10.8-million financing which was unusual in the complexity of the package sold to investors.

The placement, managed by the investment banking firm of Glore, Forgan & Co., was tailored to fit the special needs of the institutions to which it was sold:

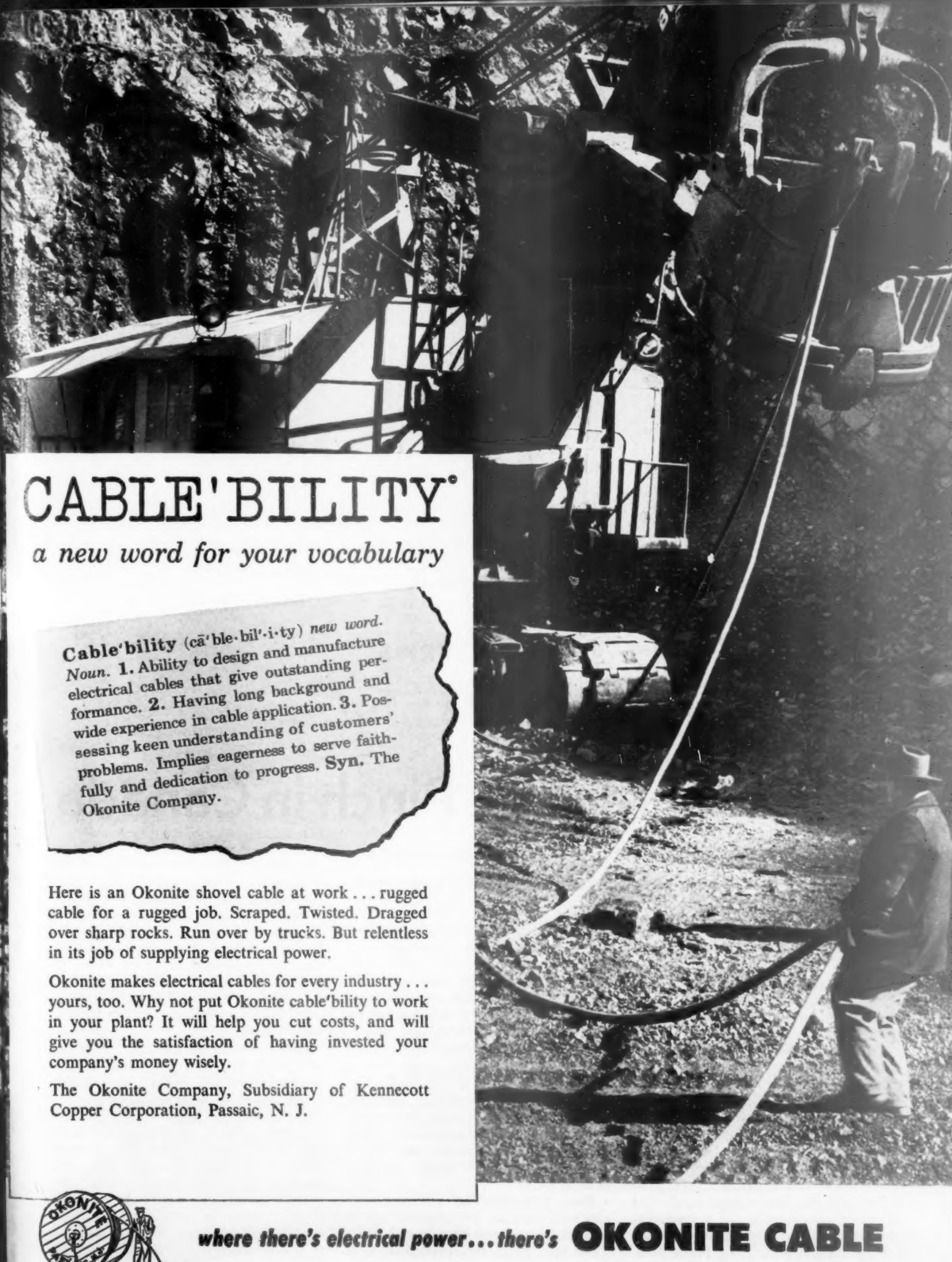
\$3.01-million short maturity 5¾% first mortgage bonds due in 1965 were sold to a group of large commercial banks.

\$4.5-million long maturity 6% first mortgage bonds due in 1979 were sold to a number of insurance companies, with Northwestern Mutual Life Insurance Co. of Milwaukee taking the largest block.

\$3.3-million of 6% sinking fund debentures, also due in 1979 but not secured by property, were parceled out to the insurance companies in proportion to their purchases of first mortgage bonds.

49,500 shares of Kaneb common stock were included with the debentures as a "sweetener." From Kaneb's point of view, the shares were sold at \$5 per share. But because of legal restrictions on insurance company purchase of common stock, most of the insurance companies will show the stock on their books as though it had been thrown in free.

Kaneb plans to use about \$4-million of the proceeds to refinance outstanding debt; the balance will go toward expansion of the company's pipeline system.



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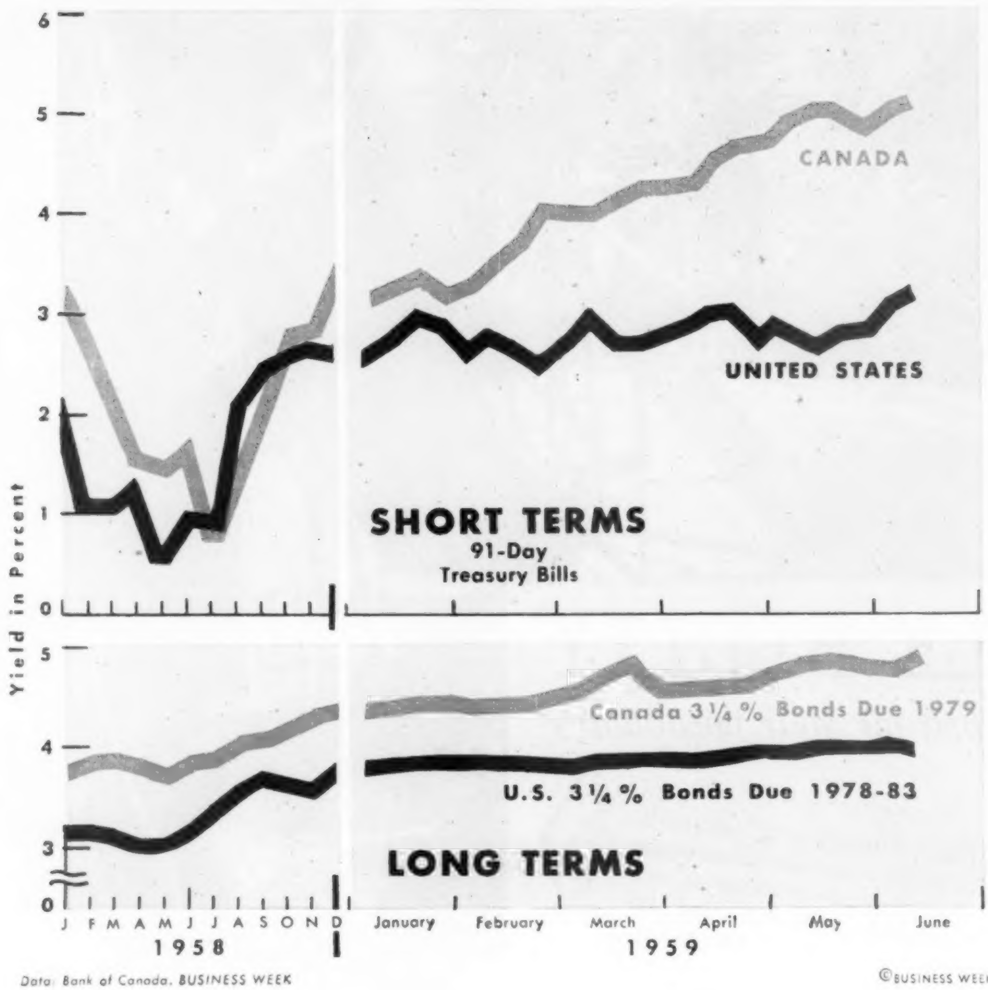


The Tight Money Pinch in Canada

Interest rates keep climbing, with both long-term and short-term costs at high levels. The situation is even more marked than it is in the U. S.

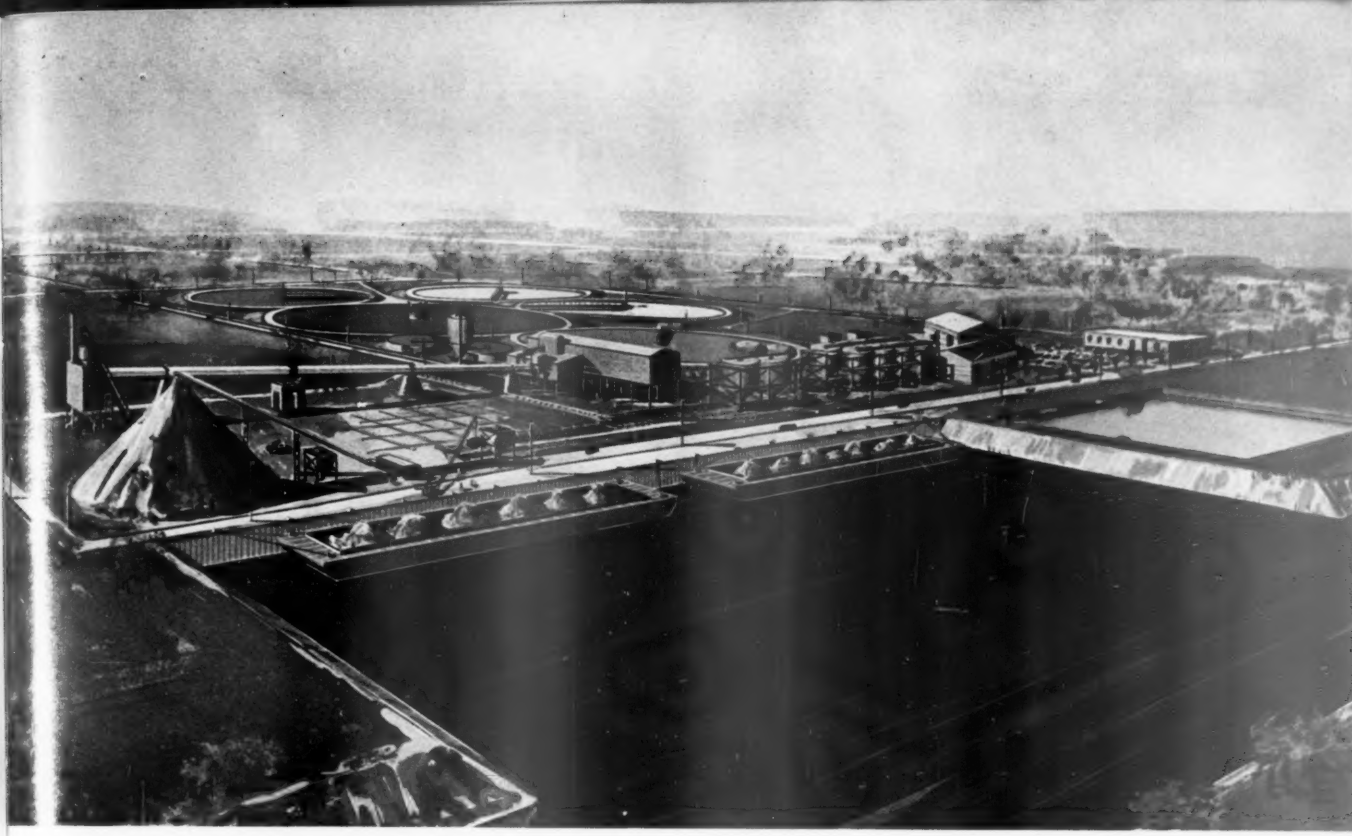
As the chart above shows, interest rates in both Canada and the U.S. are high and trending higher. In both cases it's a reflection of tightening money and anticipation of even tighter money in the future.

Both countries face the same problem. But the "tight money" issue is closer to coming to head in Canada than it is in the U.S. If Congress approves Pres. Eisenhower's request to raise the 4¼% interest rate ceiling now prevailing on government bonds, there is a good chance that investors will buy a new issue. But in Canada, where no ceiling prevails, few experts think that the government could sell a long-term issue even if the rate was above the market So the problem facing Prime Minister John Diefenbaker's government is already acute.

Long-term interest rates in both countries are well above the peaks reached during the 1956-57 period, the last time when tight money was in vogue. Short-term rates in the U.S. are still below the previous peak, but in Canada, they are at a new high. This has occurred even though the U.S. economy has barely surpassed its previous highs, while Canada is still in the recovery phase, with most of its economic indicators below previous levels.

• **Part Accident**—The swiftness with which tight money has returned to both countries is partly deliberate and partly accidental. Both the Federal Reserve and the Bank of Canada are now pressing restrictive monetary policies because they fear a new outbreak of inflation. At the same time, the governments of both countries have had to finance recession-swollen deficits. Although investors have funds available, they are reluctant to place them in fixed-income bonds. So most of the government financing has to be done in very short-term issues, which is potentially inflationary.

Most recent government financing in Canada has been short-term, including two issues this week, a nine-month bond priced to yield 5.5% and a 17-month bond yielding 5.68%. The demand for funds by the government has been so strong that the average yield on 91-day Treasury bills, the shortest government obligation, hit 5.17% last week; in contrast, the yield on U. S. Treasury bills was 3.27%, although the difference is not so wide as it appears on the surface, because the



Expanding company chooses Cunningham-Limp again

New Florida plant of Michigan Chemical to extract magnesium oxide from sea water

When Michigan Chemical Corporation chose Cunningham-Limp to cooperate in the designing and engineering of its new sea water magnesium oxide plant at Port St. Joe, Florida, it was another repeat order. Subsequently Michigan Chemical assigned to us the responsibility of purchasing and installing all the equipment and constructing all the necessary facilities for the production of high-purity MgO.

Repeat customers provide Cunningham-Limp with 90 per cent of its business. We're proud of that fact, of course, but we think it has even more significance than might at first be apparent. Designing, engineering and building of superior industrial facilities are Cunningham-Limp's primary functions—but you may find that the *additional* services you receive from C/L are what bring you back to us again and again.

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Specialists in these and many other phases are available to you from our staff. If you are in doubt as to just how to improve plant efficiency most economically, a plant analysis will provide the answers. Or it may be that, like Michigan Chemical, your need is for entirely new facilities. In either case, Cunningham-Limp's varied experience is at your service—and it is enthusiastic service.

Executives of manufacturing, distributing, research and other industries who are thinking of expansion or modernization and want to know how to approach the problem, will receive a 78-page, color-illustrated brochure covering the subject if they request it on their letterhead or business card.

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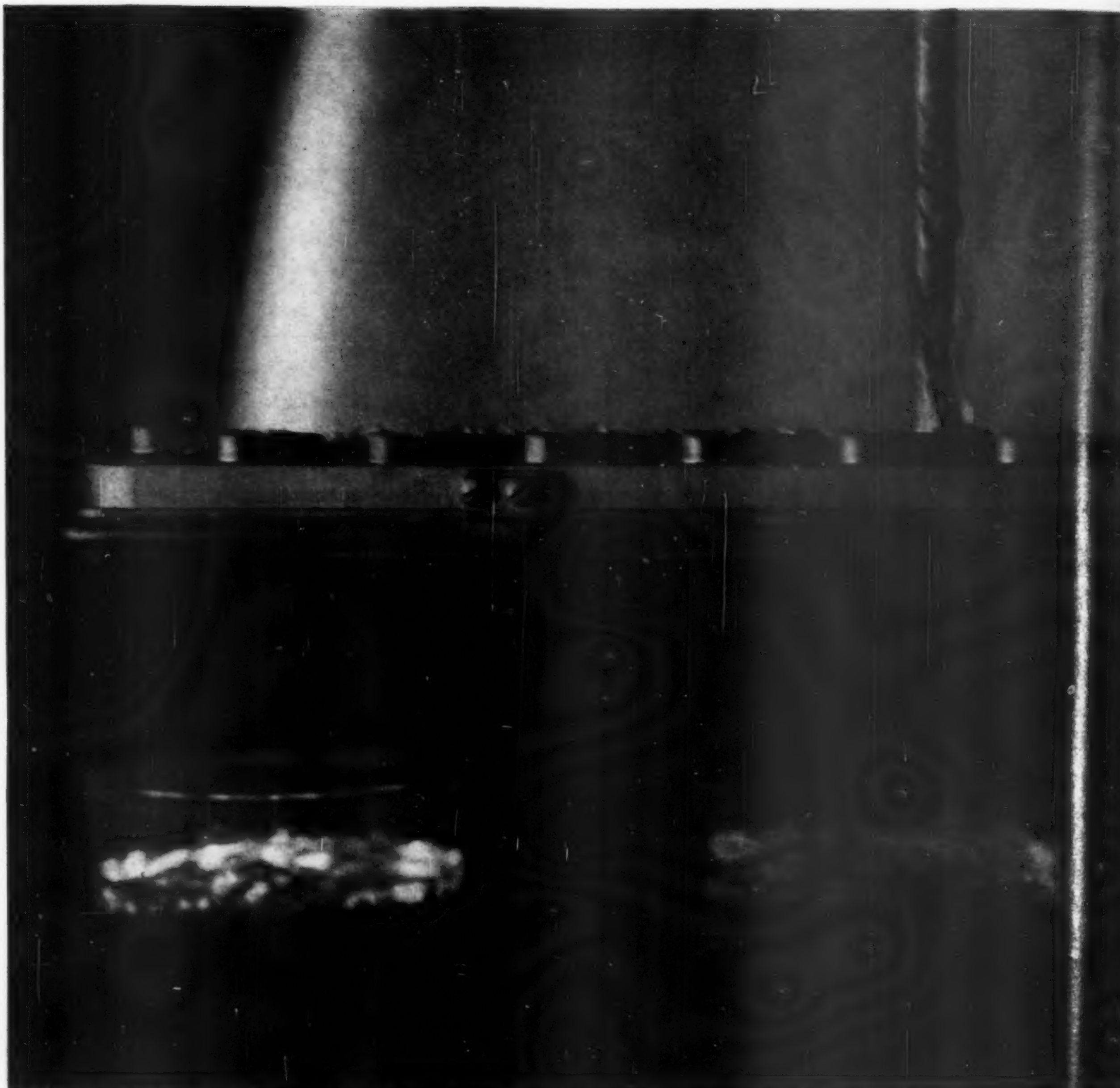


Close-up view shows Gulfcrest 44 Turbine Oil (at far right) and other samples under scanner of Van de Graaff atom smasher. Atomic bombardment causes unique color reactions. Unusual photo was taken by Gulf Research photographer inside target room during radiation, with lead-shielded camera protected by 8-inch water barrier.

Gulf research pins down radiation

With more and more nuclear power plants going into operation . . . on land, on the sea and under the sea . . . the effect of nuclear radiation on lubricating oils is of increasing importance. How much radiation can lubricating oils take?

To find the answer, Gulf researchers bombarded samples of turbine oil with electrons in a 3,000,000 volt atom smasher. By analyzing changes in the irradiated oil, they established the radiation limits below which commercially available oils will function properly.

The actual limit is about 45 million "rads"—a dosage of radiation beyond which the turbine oil begins to break down. These findings are extremely important to the power industry. And if the need arises for specific oil products to withstand more radiation, Gulf scientists are prepared to help industry solve this problem.

Meanwhile, Gulfcrest—the world's finest oil for turbine lubrication—continues to serve industry in both conventional and atomic power plants, including America's largest, the Shippingport Station of Duquesne Light Company in Pennsylvania.

Over 75% of the nuclear electric power now generated

"... financial men are freely predicting that short-term rates would break through 6% ..."

STORY starts on p. 80

Canadian dollar is selling at a premium of more than 4%.

This week, on Toronto's Bay Street—which vies with Montreal's St. James Street for the role of Canada's Wall Street—financial men were freely predicting that short-term rates would break through 6%. Some pessimists think that rates are sure to break through the height barrier reached in 1920, when Canadian bonds were yielding over 6¼%.

• **Hindrance?**—The big question is whether high interest rates and scarcity of credit will impede Canada's remarkable growth rate, which, up until 1957, outpaced the U. S. But the 1957-8 recession hit harder and lasted longer in Canada, and now, despite the fact that unemployment is over 5%, money is not only expensive but increasingly scarce.

Just a few weeks ago, Canada's 11 chartered banks reached an informal and voluntary agreement to limit the amount of loans to big corporate customers. Loan demand is already on the rise, and the banks were anxious to avert the criticism that they "discriminate" against small borrowers, which was levelled at them during the previous bout with tight money.

I. The Conversion Loan

While the same basic financial problem has emerged in both Canada and the U. S., many in Canada point to one big difference. They say that there is a real "crisis of confidence" among investors, who have lost faith in the fiscal policy of the government and in the monetary management of James E. Coyne, governor of the Bank of Canada. The trouble really began, according to most critics, when Coyne and Donald Fleming, Finance Minister in Diefenbaker's cabinet, announced a huge conversion loan last summer.

The conversion involved an offer to exchange $6.4-billion in outstanding 3% Victory bonds, which accounted for over 40% of Canada's debt, for a group of issues with coupons ranging from 3% for a three-year bond to 4½% for a 25-year bond. In all, investors exchanged $5.8-billion, or 90% of the Victories, thus increasing the proportion of debt coming due in more than 10 years from 19% to 47%.

• **Paper losses**—Those who have continued to hold the new bonds have suffered big paper losses. A month after the conversion—Canadians talk in terms of "BC" for before the conversion and "AC" for after it—bond prices began dropping, and they have been sliding ever since.

This decline has been resented by Canada's financial community which had backed up the government when the conversion was first announced. Some Canadian bankers and investors now claim that they were "taken for a ride," and others say that they would have been hurt if they had not sold out immediately after the conversion.

Much of the bitterness stems from the fact that before the conversion was made public, small and separate groups of bankers and investment men were invited to Ottawa to meet with Fleming and Coyne. These sessions, in which the participants claim they were sworn to secrecy, were aimed at making the conversion a success. As one who attended put it, "We weren't asked, we were just told. I had the idea we would be traitors to Canada if we didn't."

• **TV Exhortations**—Further to insure success, Diefenbaker and Fleming appeared in television, exhorting Canadians to turn in their Victories. Coyne, who acts as both money manager and debt manager, pledged that the Bank of Canada would support the price of the new issue. The government's unemployment insurance fund, which was managed by Coyne, Deputy Finance Minister Kenneth Taylor, and Assistant Deputy Labor Minister Gordon Cushing, converted $308-million in Victories for new long-terms.

This concerted drive helped put over the conversion. But a lot of banks and a number of dealers in government bonds took advantage of the Bank of Canada's support of the market. They saw tighter money coming, decided to sell their bonds. As one banker put it, "We made Coyne eat them."

Thus, while the conversion succeeded, the Bank of Canada's efforts to support prices brought about a big increase in the money supply—a jump of 15% between July 1957, and October 1958. The bulk of this increase came at the time of the conversion loan because when the bank buys government bonds it creates deposits in the banking system, just like the Fed in its open market operations. Expansion threatened to become so large that the bank decided it could no longer support the market. When it pulled out, prices plummeted down and have continued falling. The sharp drop in the U. S. bond market was an unsettling factor, but the Canadian financial community places most of the blame on Ottawa.

• **"Worthwhile"**—Both the bank and the Diefenbaker government maintain that the conversion was worthwhile. Fleming, who had declared that the loan would "lay the foundations for a new, healthy, and confident tone to our bond market," still thinks the conversion was "a great success." Coyne has taken pretty much the same view as Fleming.

From their viewpoint, the conversion to longer-term issues was essential if Canada was to avert a crisis. Canada, like the U.S., was plagued with a lopsided debt structure, with most of the debt in short-term issues. Bank of Canada officials say that "inflation would have been a certainty if we did not have the conversion."

But a high price was paid for getting the debt into more manageable proportions. First, there was the big increase in the money supply. Second, there was a big increase in the cost of servicing the debt, due to the higher yields put on the new issues. Third, long-term investors think they have been cheated because of the sharp drops in bond prices. And since the conversion, practically all government financing has had to be confined to the very short-term market, which is once more leading to an imbalance.

• **Spending Program**—Some experts insist that the conversion itself is not the root of the present problem. They say that the real trouble is the government's spending program, which in the last fiscal year resulted in Canada's biggest deficit. This year, taxes have been raised somewhat and spending cut, but a large deficit still looms.

According to A. H. Cameron, an outspoken critic of the Coyne-Fleming regime, the 1958-9 Canadian cash deficit of $1.6-billion is equivalent to a U.S. deficit of $17.6-billion; and he figures the 1959-60 deficit of $850-million as equivalent to $12-billion in U.S. terms. Cameron, who is with the government bond house of Saunders, Cameron, Ltd., which was one firm that did not back the conversion loan, says that unless spending is brought under control, the bond market will continue to suffer from "dry rot."

II. Limited Independence

Confronted with deficit spending on the part of the government, the central bank under Coyne has had to walk a tight rope. Unlike the Federal Reserve, the Bank of Canada is not wholly independent of the government nor has it sought to be. Founded in 1935, the Bank does not have a background of gold standard traditions or as much statutory control over the banking system as the Fed. It has freedom to formulate and carry out its credit policies without interference, but it recognizes that in any dispute "the will

of the government must prevail." In dealing with the banks it depends on "moral suasion," which, with only 11 principal banks to deal with has proved feasible.

Under Canadian law, Coyne is responsible for debt management. Thus, he had two roles to play in the conversion. On one hand, he wanted a stretchout, which would be non-inflationary, on the other, he had to supply the funds to bring about the stretchout, which was inflationary. He felt that getting control over the debt was worth expanding the money supply.

• **Investment Role**—Coyne has another role—as an investment manager. And last week he came under fire before a Parliamentary committee for his part in managing the portfolio of the unemployment insurance fund, which made net disbursements last winter because of the high level of unemployment. Members of the Liberal opposition pointed out that the fund has invested in "liquid" long-term conversion bonds instead of liquid Treasury bills; when it had to sell bonds to raise money, it not only took a loss but depressed the entire long-term market.

Coyne was stung by accusations that the portfolio had been mismanaged. He explained that if the fund had sold its old bonds for cash, it would have "fouled its own nest" and hurt the market even more.

Since October, when he stopped supporting bond prices, Coyne has applied a very restrictive credit policy, which has kept the money supply from further growth. And last week, he hinted that tight money would continue. Canada, he said, was passing into the "watershed" of high interest rates.

• **Easy Money**—Some of Coyne's critics think that he has become convinced that easy money is a greater threat than tight money. They hope he will not "bail out" the government again. However, others are still worried that if Fleming applies pressure, Coyne will give in.

Coyne's support of the conversion was his own doing. In monetary policy and in debt management, he appears to be in complete command. Although his independence is limited, the Diefenbaker Administration has not yet challenged his leadership. But Coyne's present anti-inflationary stand may bring him into conflict with Diefenbaker and Fleming.

III. Rigid Flexibility

As a central banker, Coyne has shown a willingness to experiment. Apart from the conversion loan, he has been responsible for a number of innovations, including a "floating" discount rate, which is set weekly at one-quarter of 1% above the prevailing rate on Treasury bills (this week, the discount rate was at a record high of 5.42%). In the U.S., the Fed's discount rate—the rate at which it will lend to member banks—is changed compartively infrequently, and usually leads or follows the market; but the Bank of Canada's rate is tied to the market.

This, Coyne feels, offers the advantage of maintaining the discount rate as a penalty rate without the disadvantage of having a "disturbing effect on business." By tying it to the bill rate, he thinks that expectations and interpretations that usually surround rate policy in other central banks is avoided.

• **Use as a Signal**—Not all central bankers agree with Coyne. The Bank of England, for instance, sticks to the traditional concept of the bank rate as a means of signalling policy. The Fed has used its rate in the same fashion.

One Canadian monetary authority, E. P. Newfeld of the University of Toronto, comments that the Bank has "displayed ingenuity and that this attribute improves its capacity to meet unique problems." There are others who say that Coyne and the Bank have been rigid rather than more flexible. They agree that Coyne has tried different techniques, but as one Toronto expert puts it, "He swings from one rigid posture to another."

• **Opposing Inflation**—There's no doubt that Coyne is now leading the fight against inflation. In the previous tight money period, he got the banks to increase their secondary reserves and suggested other steps to slow down excesses in the use of credit. In addition, he tried to get a more equitable distribution of the credit that was available.

He is using the same tactics now. In the main, he has to depend on quantitative control over credit. And it is in this area that he is subject to most attack. But with the government running at a deficit, he has deemed it essential that it pay the price for the funds it needs.

IV. Crisis Ahead?

The Canadian Treasury has no ceiling on the rates it can offer in selling long-term bonds. Nor is there any debt ceiling, although some critics of the government now feel that one should be introduced.

But despite this freedom, the Canadian government is finding it difficult to sell anything but short-term issues at high rates of interest. Corporations, which increased their liquidity by cutting inventories, have been buyers of, short-term issues, but there is some question just how long they will be in the market.

Fleming does not think that there will be any trouble about raising the funds needed by the government in a non-inflationary fashion. He continues to insist that "there is no tight money policy today." According to Fleming, the previous government deliberately sought to make interest rates high and cut down on expansion, but that the present government is not following such a course. He also adds that it is the Bank of Canada, not the government, that is largely responsible, although his opponents twit him for taking credit for the cut in interest rates early last year (at that time, the Bank was pursuing an easy money policy).

• **Competing**—The government is now competing with other borrowers in the market, and this pressure is expected to mount. But some provinces and municipalities are unwilling to pay the kind of rates now being demanded, and are coming into the U. S. market. By the same token, foreign funds may be attracted to Canada but such movements would be temporary, because European interest rates may soon start rising again. Moreover, both Canadian borrowing in the U. S. and the influx of foreign funds raises the premium on the Canadian dollar, and may hurt exports.

Most critics think that if spending is controlled, then the money market will grow more stable. But few see any real hope of halting spending. One joke going the rounds is that "Canada needs a second conversion—a conversion of Diefenbaker to a sound money policy."

Actually, there is talk of another conversion issue in Canada. But Canadian bond dealers say they would have a very hard time selling any more long-term securities. "Our customers have been burned," says one.

• **Challenge**—Some feel the situation would be improved if Coyne made absolutely clear that he would not increase the money supply and would force the government to pay whatever the market requires. But this would be a direct challenge to the government's ultimate authority over monetary policy and debt management.

There is also the suggestion that Coyne could regain the confidence of the money market if he operated on a more friendly "give-and-take" basis, which would provide a better "feel" of conditions. But changing the present "arm's length" relationship between the bank and the market involves some danger. For one thing, any close collaboration would entail a political attack. For another, leaders in the market itself aren't at all sure what should be done.

Coyne himself seems to feel that Canada can enjoy prosperity with high interest rates. Many of his recent actions indicate that he is willing to resist any return to artificially low rates in the market. And if he remains firm he may force the government to either cut back on spending or else face a showdown with the central bank. **END**

New York Revives Co-op Housing

● The city's demand for luxury housing is making co-op apartments popular again with landlords and tenants.

● Builders, through intricate tax deals, are reaping big profits, although lenders aren't too enthusiastic.

● Elsewhere, co-ops have made a little headway in some cities, but generally are not in demand.

From an office atop one of New York's taller office buildings the other day, Edward J. Dennis, vice-president of Gross Bros. Corp., cast approving eyes over Cannon Point South, a 19-story luxury cooperative overlooking the East River. "Take a good look," he said. "In 20 years or so, all of New York's luxury buildings will be cooperatively owned."

Dennis, of course, may be biased. The firm was able to sell the building to its tenant owners at a tidier profit than it could have gained if the building was set up on a rental basis. But Dennis' enthusiasm—if not his prediction—is shared by a number of housing experts, who feel there's the possibility of a big boom in luxury cooperative apartments.

• **New York Phenomenon**—Cooperative apartments—either conventionally financed or FHA-backed—have been mostly a New York phenomenon. New York is essentially an apartment city, and co-ops are coming back—after a disastrous period in the 1930s—for a number of reasons. Most important, says Dennis, is that land costs in Manhattan have been steadily rising—"so high that builders can't get rents to match their costs." Coupled with this is the fact that there is the scarcity of high rent housing; demand for space in the better sections of Manhattan is still rising.

To apartment dwellers, the principal advantage of co-ops is the tax-deduction feature. A co-op owner, who buys shares in a non-profit cooperative corporation, can deduct his pro-rata share of mortgage interest and real estate taxes from income. Say he pays $25,000 down for a 5-room co-op, and his share of the mortgage on the building is roughly $15,000. The maintenance cost—or carrying charge (co-op owners don't pay rent)—could run to about $4,000 a year. Of this, about 40% or so—or $1,600—can be deducted. For a man in the 50% tax bracket, this means a saving of more than $800 a year.

• **Rent Decontrol**—Another factor in the acceptance of co-ops in New York was the decontrol of luxury apartments in March, 1958; affected were unfurnished apartments renting at $416 or more a month. Since decontrol, tenants in many luxury apartments have been faced with the choice of paying substantially higher rents, or going along with landlords who have been converting their existing buildings to co-ops in order to bail out of what are considered "unprofitable" undertakings.

Co-ops also give tenant owners a voice in management which tends to keep costs lower than usual for an apartment. They also instill a desire to put in improvements, with the knowledge that investment won't go down the drain if they move out. Moreover, there's always a chance to build up equity in the building, and a chance to sell co-op stock to another individual at a profit.

These lures, say co-op boosters, make co-ops a natural in cities that are apartment-oriented. They point out, for instance, that New York tenants in existing buildings are now voluntarily moving toward co-op status. Howard H. Given, of Brown, Harris, Stevens, Inc., sales agents, estimates that about 100 Manhattan apartment houses have been converted since the war; altogether, there are now 150 in the city, and adherents to the co-op cause feel that so long as demand for high rent housing remains high and so long as builders can make big profits, the growth of luxury co-ops seems assured.

• **Skeptics**—Most housing men, however, are far less certain. They admit the co-ops have some merit (while quickly adding that there are many hidden charges, but they point out that even in Manhattan roughly 20 luxury co-ops have been built in the past 15 years.

Their main concern is that co-op financing still is hard to get, that builders still can't draw lenders in any sizable numbers to the co-op concept. Until insurance companies and banks are more liberal, the doubters claim, luxury co-op building will be limited.

• **Middle Income Co-ops**—The same pessimistic outlook is probably true, too, for middle-income and low-income co-ops. These generally are built under Section 213 of the National Housing Act, which authorizes government-backed mortgage loans to developers. But in the past two years, the 213 program has been running at a slow pace.

Builders find the red tape of government supervision tedious and worrisome—especially after getting clipped for "windfall profits" on past Section 608 federal housing projects. Besides, under 213 a co-op corporation must wait until it gets 90% of its tenant-owners signed up before a builder can start construction. "It's too long a wait for both the builder and the prospective tenant," says Samuel Grad, a young New York attorney who's branching out as a co-op developer in New York and California.

So even though some housing authorities feel the 213 program—perhaps in union with an urban renewal plan—is the cure-all for the middle-income housing problem, it's doubtful many co-ops will be built under it—unless more sweeteners are thrown in. (This doesn't mean that many 213 co-ops aren't profitable for developers. On the contrary, many of them—using mostly borrowed money—reap big rewards.)

I. New York Practices

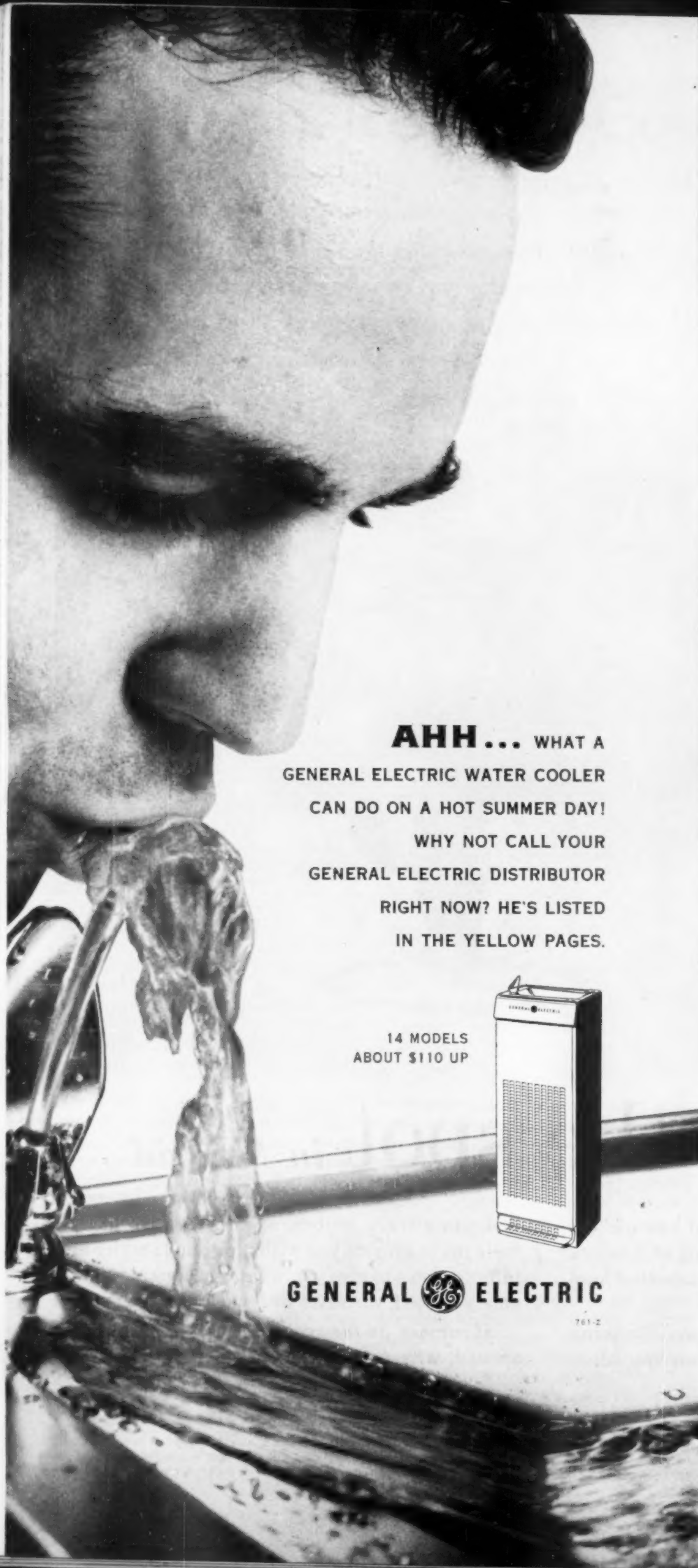
Mortgage lenders have a long-fixed tradition against co-op investments. Explains one: "They still carry the stigma of the 1930s when the Depression forced co-op owners to abandon their apartments; they just couldn't cover the carrying charges. Other co-op owners were tied down to long-term leases; they had to stick it out even if it busted them."

• **New Attitude**—But there are signs that lenders are a little more generous now. Sydney M. Rogers, partner in Urban Servicing Co. in New York, mortgage loan correspondents for John Hancock and Phoenix Mutual Life, admits this; USC has made about a half-dozen mortgages on luxury co-ops. "We still don't go looking for them," Rogers adds quickly. "But if it's a good deal we're willing to look them over."

Depending on state law, an insurance company appraises the co-op on the basis of what it would bring as a rental housing building—in case of default—then gives the builder up to two-thirds of that appraised value as a loan.

Some lenders, however, still turn a deaf ear to co-op developers. They flatly state they're not interested in co-op apartments, citing these reasons: (1) high carrying charges, (2) small owner investment, (3) skimping on architectural plans.

• **Builder's Tax Schemes**—From the builder's standpoint, there's one main



catch: doubt whether a sale of a co-op building can be treated as a capital gain. But most co-op developers have set up elaborate schemes to pull out capital gains on their deals. So far, they have not been challenged by the Internal Revenue Service.

• The most common way is for the developer to set up a subsidiary land corporation. This land corporation buys the property on which the co-op building will be constructed, then, after the appropriate period of time, sells it to the co-op corporation. The profit is treated as a capital gain.

At the same time, the co-op corporation usually hires the developer's building corporation to construct the co-op. This is usually done on a lump sum contract basis, which means that the builder works out a suitable price with the co-op corporation. Any profit on the actual building would be normal income, so the builder—his capital gains already tucked in his pocket—keeps the price "suitable."

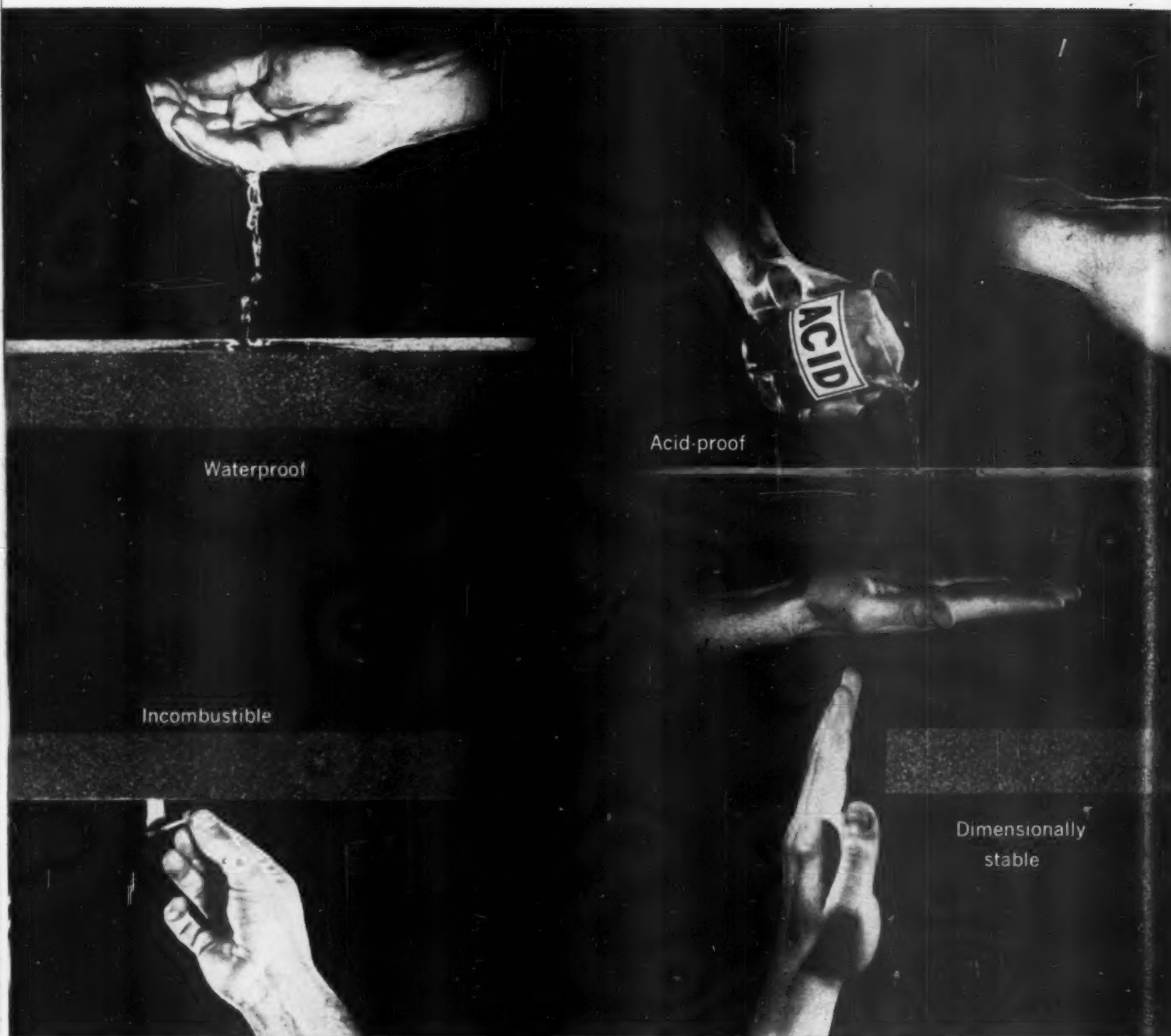
• Another way is for the developer to take back a second mortgage on the property. Say it cost a builder $3.2-million to put up a co-op, and he can get a $2-million mortgage. Then suppose the builder sells the building to the co-op corporation for $4-million, accepting as downpayment only 30% of the purchase price, and taking back an $800,000 second mortgage. Under the tax laws, if in the year of a realty sale no payments are received or the payments are not more than 30% of the selling price, the transaction is considered an installment sale. This 30% does not include a mortgage assumed or taken over if it doesn't exceed the cost of the property. With a little jiggering, builders are treating the cash they receive as capital gains, as well as the principal they get back on the second mortgage.

• Still another method is for the builder to sell some of the co-op stock to the co-op corporation, but hold some of it for himself. If he's lucky, he'll be able to sell his shares to a prospective tenant-owner at a capital gain.

As one mortgage broker puts it: "These tax gimmicks are not on all fours. They are well worked out, but no one feels confident enough to go blabbing them about."

• **Leaseholds**—Builders also are using leaseholds—that is, leasing the land, instead of selling it to the co-op corporation. If the builder himself has leased the land, instead of purchasing it, the leasehold allows him to use less working capital for his project, put his cash to better use. And if the developer gets a mortgage on the land (by assigning the co-op's lease payments to the lender), he's able to make some good profits—the mortgage money he gets is "borrowed" money, therefore, non-taxable.

• **Lush Profits**—Whatever the deal,



example:

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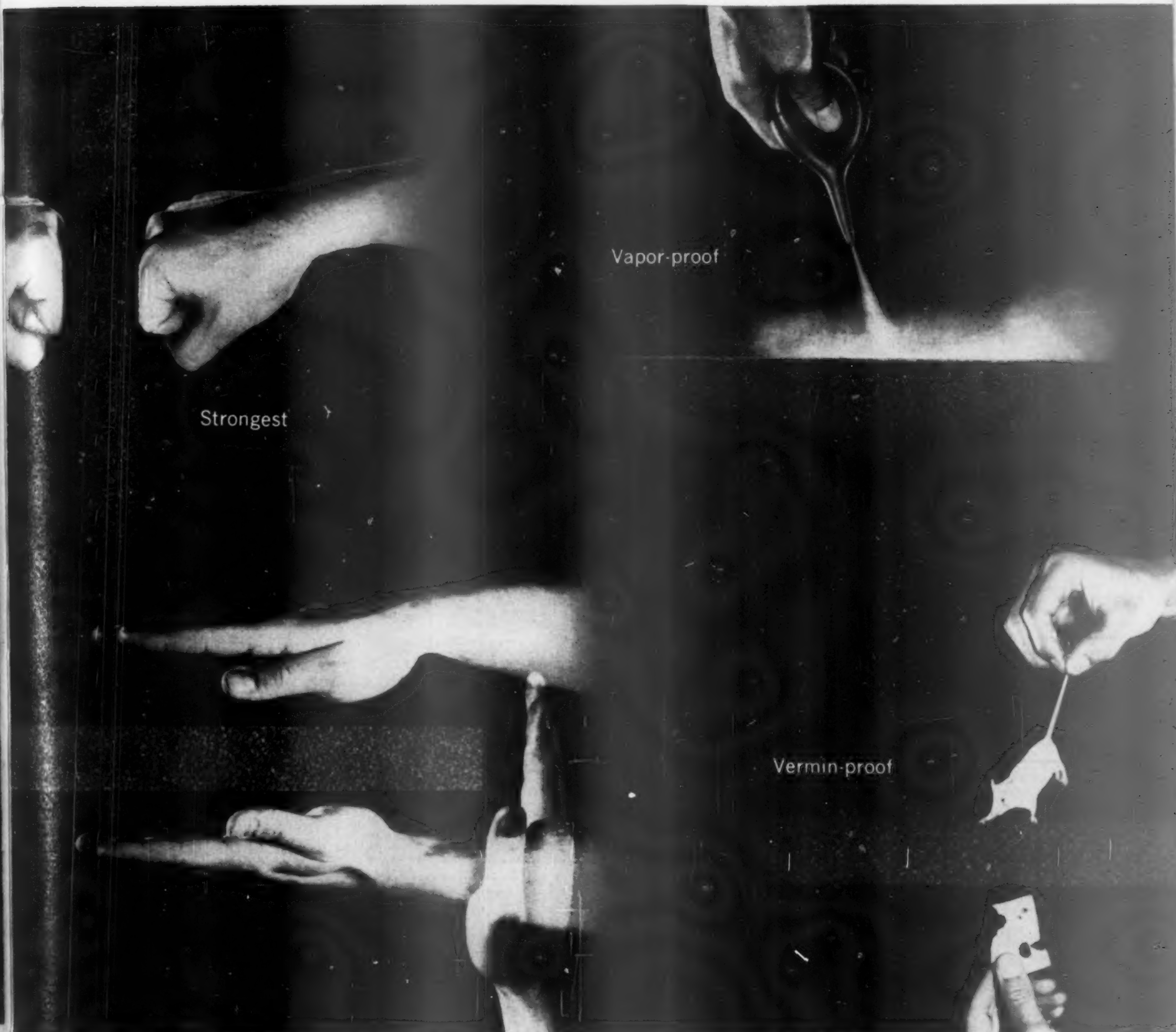
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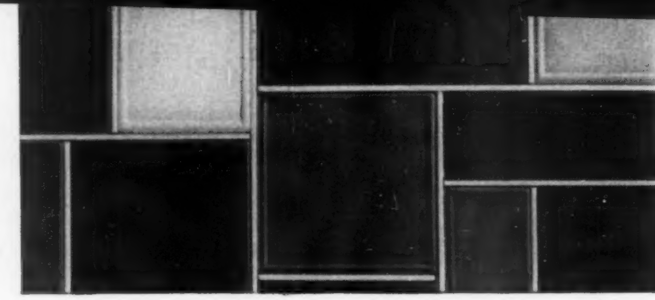
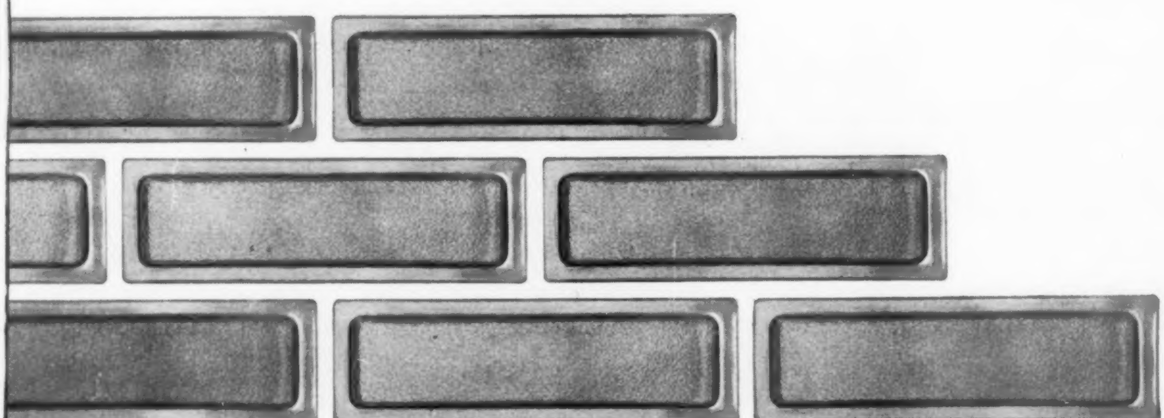


example:

The 4 x 12: PC's new dimension in glass block design. With the creation of the **4 x 12** pictured here, Pittsburgh Corning added a new dimension to glass block design. This important break with tradition has helped to create broad flexibility in solving design problems. The **4 x 12** has smooth outer faces to eliminate dirt and dust accumulation, yet an acid-etched appearance gives character and texture to its inner surfaces. It can be had with white or green tinted insert screen—or plain. Perhaps most important, the **4 x 12** can be furnished with each of the 12 brilliant ceramic face colors now available throughout the full line of PC Glass Blocks.

Like the unique curtain wall illustrated on the first page of this advertisement, the **4 x 12** offers further evidence of the design versatility inherent in the form, color and function blended in the growing line of PC Glass Blocks.



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(*To be continued*)

PITTSBURGH pc CORNING

profits in co-ops have been lush. "If a man puts up $300,000," says one sales agent, "he expects to get back $1-million, give or take a few dollars." The sign of a really smart developer, says one promoter, is to be able to "mortgage out"—get his cash investment out before the contractor puts a shovel to the ground.

For the co-op tenant owner there is a chance of making a profit, too, along with some risks. Up to now co-op tenant-owners have been able to make good profits on the resale of their apartments, though sometimes the co-op corporation takes a chunk of the profits.

But Rodgers of Urban Servicing warns this may not be always so. "Co-op values don't move with real estate values," he says, "but with apartment house values. Once more co-ops flood the market and ease demand, I don't think co-ops will sell at such premiums over their original price."

And, there's always the chance that carrying charges will rise substantially if a string of vacancies hit the co-op project.

II. Outside of New York

Though the co-op idea is growing in New York, there is no real evidence that other cities are too interested, as yet.

• Trend Buckers—A few bucking the trend, however, are Milwaukee, Los Angeles, and San Francisco. Milwaukee's first co-op was announced this year—a 14-story, [illegible]-unit luxury project costing $4-million. It's located on the lakefront in the heart of the best apartment district. Promoter Julius Rubin says completion is scheduled for the spring of 1960, with down payments ranging from $38,000 to $57,000.

In San Francisco, where co-op apartment construction has been an off-and-on affair, one $2.4-million project is under construction in Oakland, another is being drummed up for the Nob Hill area.

Co-ops also appear to be gaining ground in Los Angeles. The shining example is the recently completed Wilshire Terrace, built on fashionable Wilshire Boulevard by Tishman Realty & Construction Co. A $12.6-million project, it has 112 units which range in price from $24,000 to $80,000.

However, these seem to be isolated cases. The Houston co-op situation, for instance, is non-existent. "The people here just have a taste for homes," says Melvin A. Silverman, president of Houston Homebuilders Assn. In 1946, Silverman and others attempted to promote a co-op apartment but failed. Last year, another promoter tried to sell the idea of a co-op in the swank River Oaks section, but that flopped, as well. **END**

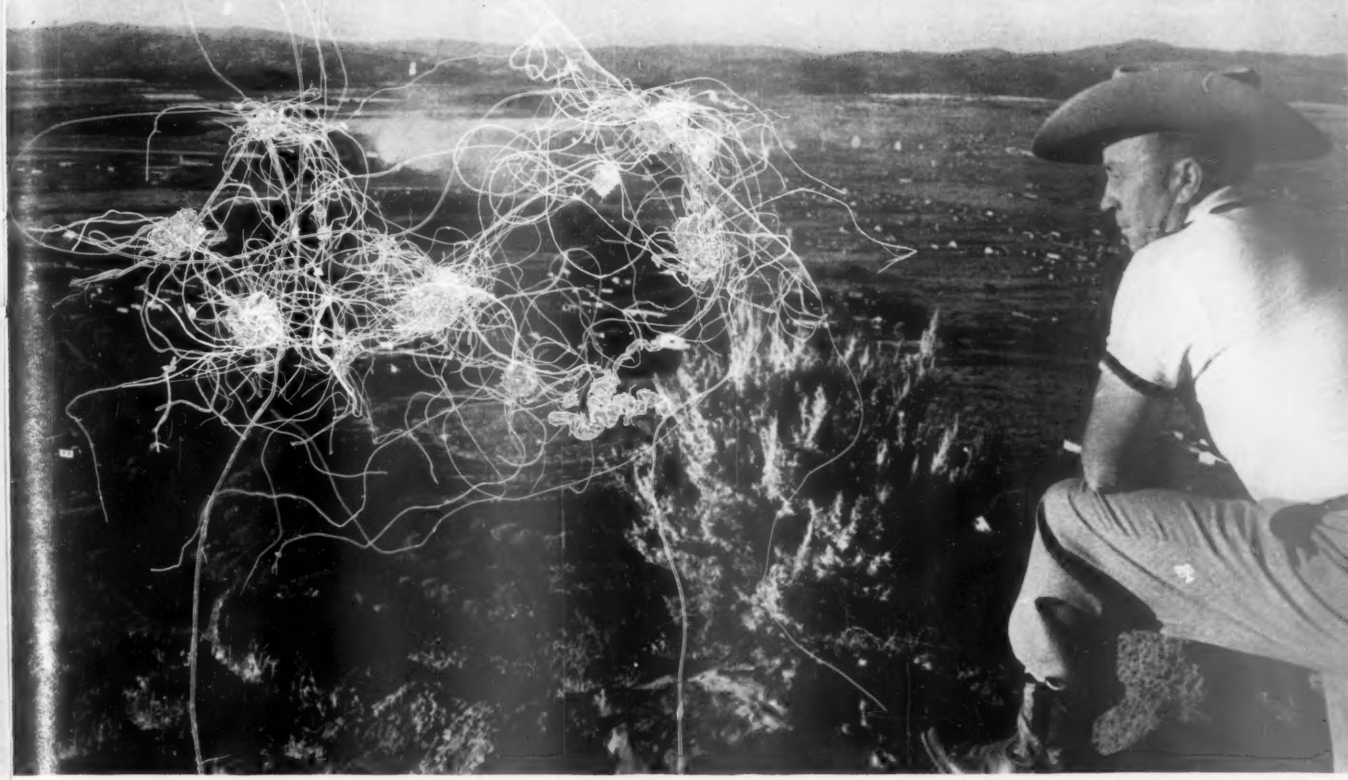
Tall Trees, Tall Ideas, Tall Men

JOHN DELTON GRAY almost single-handedly built saw chain business supplying Northwest's lumbermen.

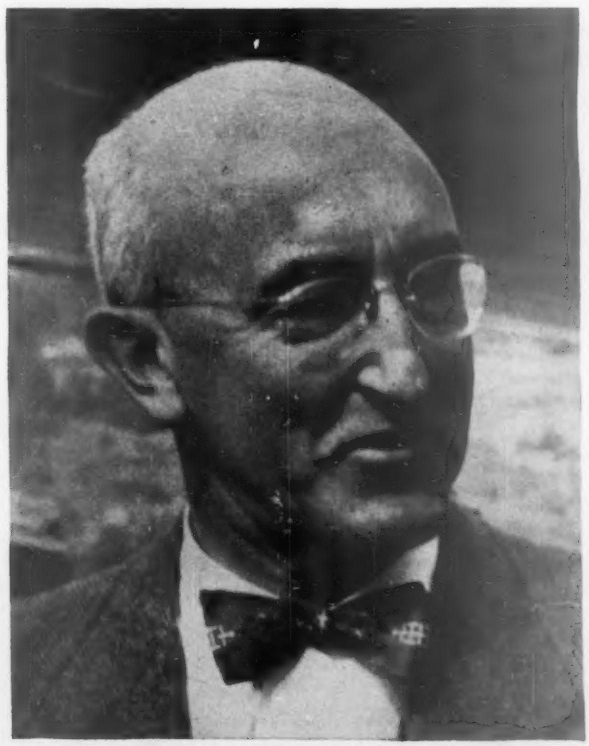
For a few businessmen, the resource-rich Pacific Northwest is still a frontier of opportunity; for many another executive, it's a region where he can do a job and win recognition in surroundings that, at best, combine the virtues of metropolitan center, garden suburb, and mountain or seaside resort.

Story on page 98

KENNETH FORD puts on no airs although his Roseburg Lumber Co. rivals the biggest plywood makers. All business decisions are his.



JOHN HUDSPETH surveys a portion of the Central Oregon cattle empire, twice size of Rhode Island, he has assembled in 10 years.



WILLIAM ALLEN is president of Seattle's Boeing Airplane Co., far and away the region's No. 1 manufacturing employer.

FRED MEYER has become a dominating Northwest retailer by offering variety of wares in decentralized supermarkets.

CRY OF "TIMBER" is unchanged since pioneer days, but early loggers have been replaced by integrated companies.

ROAR OF JETS over Washington's Mt. Rainier is newest Northwest sound. These 707s are from Seattle's Boeing.

Nostalgic for the Past—but Planning for the Future

Talking of the Pacific Northwest in a reflective spirit recently, one of the region's young businessmen observed, in mild lament: "It's not like it was in the old days."

To him, "old days" didn't mean the era, heady and sometimes raw, when the pioneer settlements south of the Columbia River were consolidating themselves into the full-fledged State of Oregon and leaving their neighbors to the north to carry on as the Washington Territory, without statehood, for 30 more years. This is the period Oregon is celebrating in the 100-day Centennial and International Trade Fair that began last week (picture, right), marking a full century in the Union.

The "old days" of 1959's meditative Northwesterner weren't even the relatively unhurried prewar years, when he was a youth. For this particular businessman had been a resident of the region a scant three years; he knew nothing of the prewar placidity—or of the frantic World War II growth, when population surged in to man the ship-

CENTENNIAL of Oregon's statehood runs for 100 days in Portland this summer, with trade exhibits from all over the world, displays recalling the Northwest's history.

yards, the aircraft plants, and the Hanford plutonium works.

• **Too Many Fishermen**—Essentially, what he was regretting was that too many people like him were also becoming naturalized citizens of the Pacific Northwest. Unlike the "old days," perhaps there were too many people discovering his favorite seashore cove or trout stream, clogging the downtown streets and parking spaces, making business life a touch more hectic and impersonal.

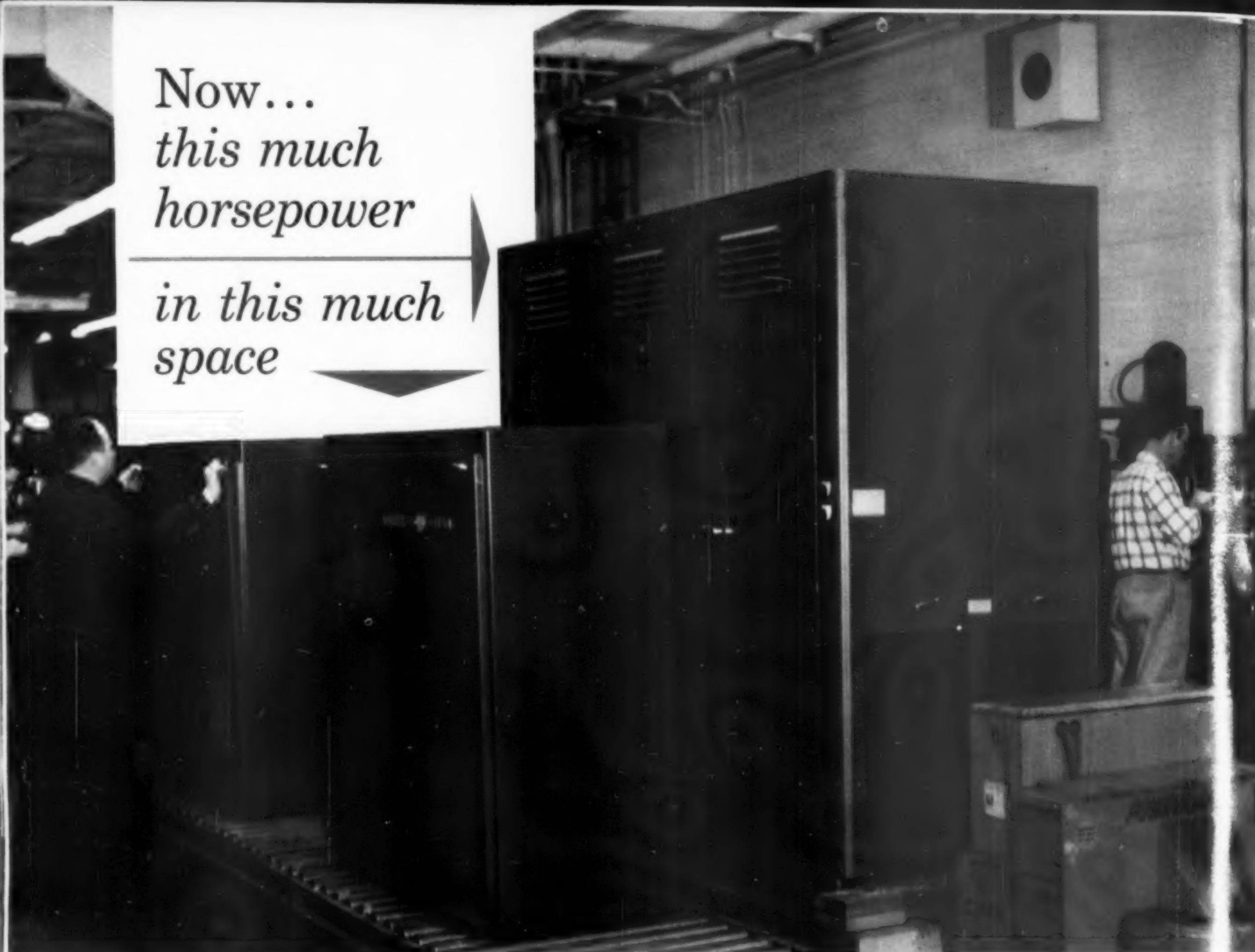
This nostalgia for a quieter day is pervasive in the Pacific Northwest. You find it, as might be expected, in the descendants of pioneers, but you also find it in newcomers such as the regretful three-year man, though he may have acquired the trait precociously early. It is one side of a sort of schizophrenia that stands out startlingly in the Pacific Northwest businessman as a breed.

• **Still Booming**—The other side of his schizophrenia is an enthusiasm for the region, a bullishness about its prospects, and a willingness to change with the times—sometimes, but by no means always, reluctantly. This attitude is typified by the fact that, likely as not, the first treat for an Eastern guest will be a scenic drive to some of the viewpoints with which the Northwest's cities abound, or to the base of a snowy Cascade mountain—Hood if he is visiting Portland, Rainier out of Seattle. Ultimately, he will be taken to dinner, not to a restaurant but to the host's home, and part of the price of meal will be to cluck appreciatively over the roses the host has set out and tended or the array of shiny garden tools that may be cherished more than a bagful of high-priced golf clubs.

The Northwest businessman's pride in his region makes him want to see it prosper. "I know we need some new business," says one executive aware of the importance of diversifying the economy. But, remembering that the status quo is pretty pleasant, he adds: "I sure hate to see it come." In a test, though, he acts on the side of growth. Thus, Washington's Gov. Albert D. Rosellini and a number of his state's business leaders trooped to several Eastern cities to recruit new industry.

I. The Economic Mix

The economy of the Northwest—Oregon, Washington, plus in some calculations parts of Idaho and Montana—today can be characterized in rough generalization as two things: timber and Boeing. The biggest industrial employer in the region by far is Seattle's Boeing Airplane Co., with more than 71,000 persons on its payrolls. But of the 18 Northwest companies providing the most jobs, nine are in forest products. It's a curious fact that timber



New 50 hp. Super 'T' V★S control cabinet compared with 50 hp. old style drive on Reliance production line.

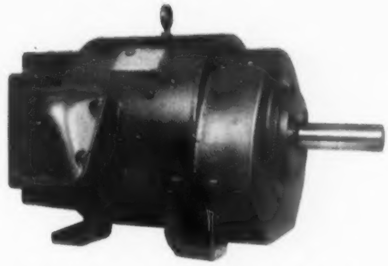
The secret is a new power unit, new controls, and the Super 'T' D-c. Motor

The new Super 'T' power unit packs extra punch into a smaller space. Like the Super 'T' D-c. Drive Motor, it uses Class B insulation. It takes repeated 100% overloads of one minute duration. Special control apparatus design has been engineered for the Super 'T' V★S. This systematic balance of power unit, drive motor, and controls forms a single, fast-functioning unit to provide a wide range of variable operating speeds from a-c. circuits.

40—150 hp. Super 'T' V★S available for immediate delivery. Contact your local Reliance Representative for delivery schedules of the complete line, 1—350 hp.

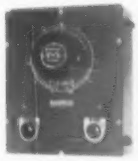
RELIANCE ELECTRIC AND ENGINEERING CO.

The Super 'T' V★S Drive, a complete power package, provides variable speeds from a-c. circuits



SUPER 'T' D-c. DRIVE MOTOR

OPERATOR'S PANEL



Wide range of operating speeds from a-c. circuits adds flexibility to existing production machinery. Speed changes are stepless and can be varied while equipment is operating or stopped.

Controls

New control relays, both a-c. and d-c. Field tested by three Reliance customers—for over 20 million operations without failure.*

Power Unit

Two-bearing power units are always in alignment, eliminate bearing and coupling problems.

Ventilation

Power unit cooling air is exhausted directly out of cabinet. Provides separate ventilation systems for controls and power unit. Controls are kept cooler, materially extending service life.

Insulation

Power units include new NEMA redesigned d-c. and a-c. machines. Units are smaller. Class B insulation allows more power in less space.

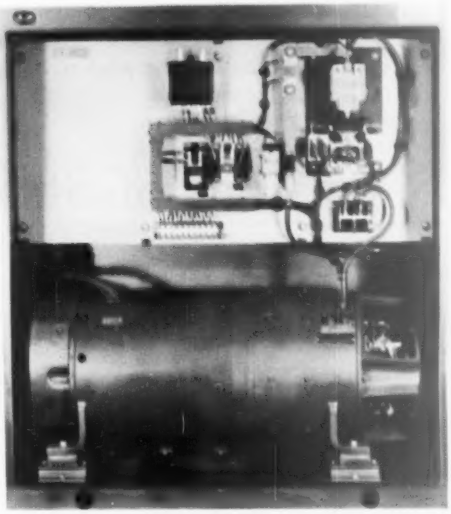
Drive Motor

Super 'T' D-c. Drive Motors give fast response to speed and load changes, take repeated 100% overloads of one minute duration without failure.

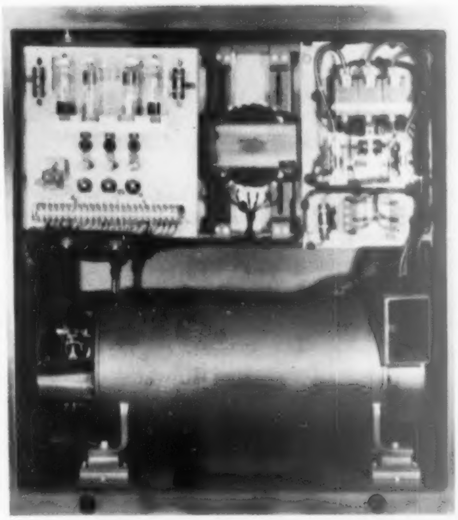
Design

Every component designed for matched performance. New motor controls, new power unit and new drive motor provide balanced operation of production machinery.

*Names on request.

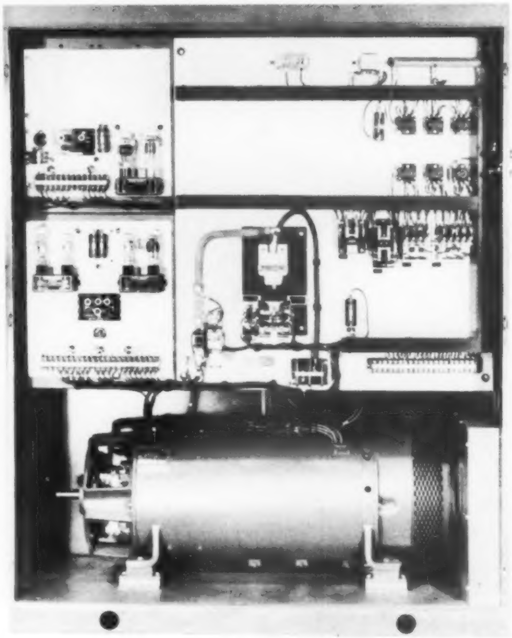


FRONT



BACK

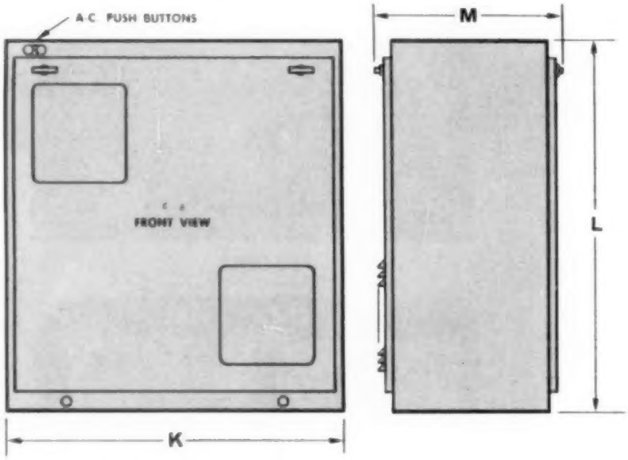
"Custom" Super 'T' V★S Drive for more flexibility, more automatic operation



Every function of the standard model and more. Custom units are designed to incorporate additional controls for engineered installations. Custom models, through the use of feed-back regulation, will provide complete system automation. Control panels are larger to accommodate controls for regulating speed, position, torque and any other operating variables.

Dimensions of Standard Super 'T' V★S Control

FLOOR MOUNTED, 1-150 V★S



Dimensions are in inches and correspond to letters shown.

V★S HP.	CABINET DESIGN	K	L	M
1-15	1SF	35	40	16
20-30	2SF	40	45	20
40-60	3SF	45	50	23
75-100	4SF	55	55	26
125-150	5SF	70	60	30

Product of the Reliance Electric and Engineering Company, manufacturers of a-c. motors, Master Gearmotors, Reeves Drives, Super 'T' D-c. Motors, generators, controls and engineered drive systems.

RELIANCE ELECTRIC AND ENGINEERING CO.

CLEVELAND 17, OHIO
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RELIANCE

D-1618 Printed in U.S.A.

FIRST BUSINESSMEN were fur traders. In 1813, Americans (at right in picture) surrendered their first trading post, Astoria, to the British, but rivalry continued for years.

FRONTIER TOWNS boomed in the 1840s, clinching U.S. control of Northwest, heading Oregon for statehood.

PORTLAND a century ago had more than 1,500 inhabitants, passing the 8,000 mark in the 1870s (below).

helped Boeing make its start; in winning a World War I contract to build planes, the founder was favored by the availability of Sitka spruce around Puget Sound.

In the timber industry, two changes of sweeping impact have been occurring. As more and more virgin stands of evergreen are cut over, the industry's geographical center moves farther and farther south, toward the remaining trees. By now, the hub is Roseburg, Ore., halfway to the California line. Happily for Seattle, Boeing came along with a boom to keep it busy after the bulk of lumber activity migrated south.

In addition, like many another U.S. industry, timber is increasingly marked by concentration of ownership and by integration. The small individually owned sawmill is becoming rarer and rarer. With the price of logs mounting, the only way to make a profit is to squeeze a product out of even the tiniest chip of bark. The big lumberman of only a few years ago would be unable to finance the research and the mills for plywood, hardboard, and pulp and paper that are among the operations of today's giant timber companies.

• **Vanishing Operators**—So more and more lumber outfits are absorbed by integrated titans such as Georgia-Pacific Corp., which brought out nine major companies from 1947 to 1956 to bring its Northwest timber reserves to 12-billion bd. ft. And Georgia-Pacific is a dwarf beside Weyerhaeuser Timber Co., whose Northwest reserves come to an estimated 40-billion bd. ft.

The new industry pattern to some extent changes the type of businessman in timber, as similar changes have affected other industries all over the country. There are fewer individual entrepreneurs; most of the men who run things now work for the big corporations. Many of them come from other parts of the country. Georgia-Pacific, for example, estimates that 30% of the men in its middle and

upper management posts come from outside the region.

• **Growth in Metals**—In recent years, the growth in Northwest employment has come most notably in forest products other than lumber—reflecting the integration in that industry—and in diversified manufacturing, especially light metals, electronics, and aircraft. This has brought a new group of businessmen to the region.

II. A Sampler of Types

Since 1940, the Northwest's rate of population growth has been almost double the national average—63% for Oregon and 59% for Washington, against a U.S. average of 32%. Personal income has also increased at a faster-than-average clip. This means that if it isn't the frontier region of 100 years ago, it's still a land of opportunity. Not a few enterprising businessmen have seized the chance.

These men may not be the typical Northwest businessman, but they give the region's economic life much of its distinctive tang.

• **Out of the Cellar**—For instance, a Reed College engineer, Howard Vollum, teamed up after World War II with Jack Murdock, whose electronics career started in a radio repair shop. Together, they formed Tektronix, Inc., to make oscilloscopes and other electronic test gear outside Portland. Tektronix began on the basement-garage scale, but by now it has two plants and 2,500 employees, and last year the founders reportedly refused a chance to sell out for $22-million. Like many of the young postwar successes, Murdock dabbles in a sideline—in his case, selling and distributing airplanes.

John Delton Gray has a grapefruit ranch in California, but that's only incidental to his business—owning and running Omark Industries, born as Oregon Saw Chain. After Oregon State College and Harvard Business School, Gray staked everything on an impoverished logger's idea for a new kind of saw chain for power saws. Production began in 1947 with four workers in the logger's basement; today's annual sales top $12-million, and besides two plants in the Portland area, there are one in Ohio, one in Canada, and another in Sweden, plus projects under way in Japan and Australia.

• **Working in Whipcord**—Kenneth Ford is cut from the same kind of cloth. He is sole owner of the Roseburg Lumber Co., worth an estimated $25-million; he owns more than a billion bd. ft. of timber, and his plywood mills turn out about 300-million ft. a year. "On a soft market, he controls the price of certain grades of plywood—it's as simple as that," says a competitor. "He doesn't have to go to any board of di-

rectors to cut the price. He just goes ahead and does it because it's all his."

Yet in the 1930s Ford was in business only precariously, with a sawmill he was buying on time. During wartime, he put every dime he made into timber. The spurt in timber prices made his fortune.

Ford is completely unpretentious. He sends his son to an exclusive Eastern school, but he lives in Roseburg in a house worth maybe $15,000 or $20,000. His ordinary attire consists of whipcord trousers and jacket, shirt, and tie, and his wife does the cooking and most of the gardening. He's constantly on the prowl through his mills; if a worker isn't performing some menial task just right, he will do it himself.

• **Kindred Spirits**—These men, samples of the Northwest's bright young men, have much in common. All are under 50, most still in their 30s. They are in the Northwest mainly because they like it. Although Gray's home is ultramodern and he entertains about once a week (mostly for business), he often mows his own lawn. In his plant, he says, "there's none of this 'Mr. Gray' business." His workers get free coffee and morning doughnuts.

"Out here," says Gray of the satisfactions of business life in the Northwest, "people are more easily identified with their community. If you do a decent job, you get recognition."

• **Big Retailer**—Portland's Fred Meyer, proprietor of a big chain of supermarkets dispensing a range of merchandise as wide as a department store's, is older, but he's equally unpretentious. He works at a battered desk surrounded by others just like it in a big room that is headquarters for 12 shopping centers and three downtown stores. He tours his outlets with a tiny camera to photograph displays, and he may even help a woman customer to the parking lot with her bundles. But his chain grossed more than $50-million in 1956.

At another extreme in character, though not in prosperity, is John Hudspeth, of Prineville in Central Oregon. His Hudspeth Land & Cattle Co. runs 25,000 head on an estimated 1.6-million acres, extending into six counties, and Hudspeth Pine Co.'s seven sawmills have capacity to handle more than 1-million bd. ft. of lumber a day from the vast Ponderosa pine stands he owns.

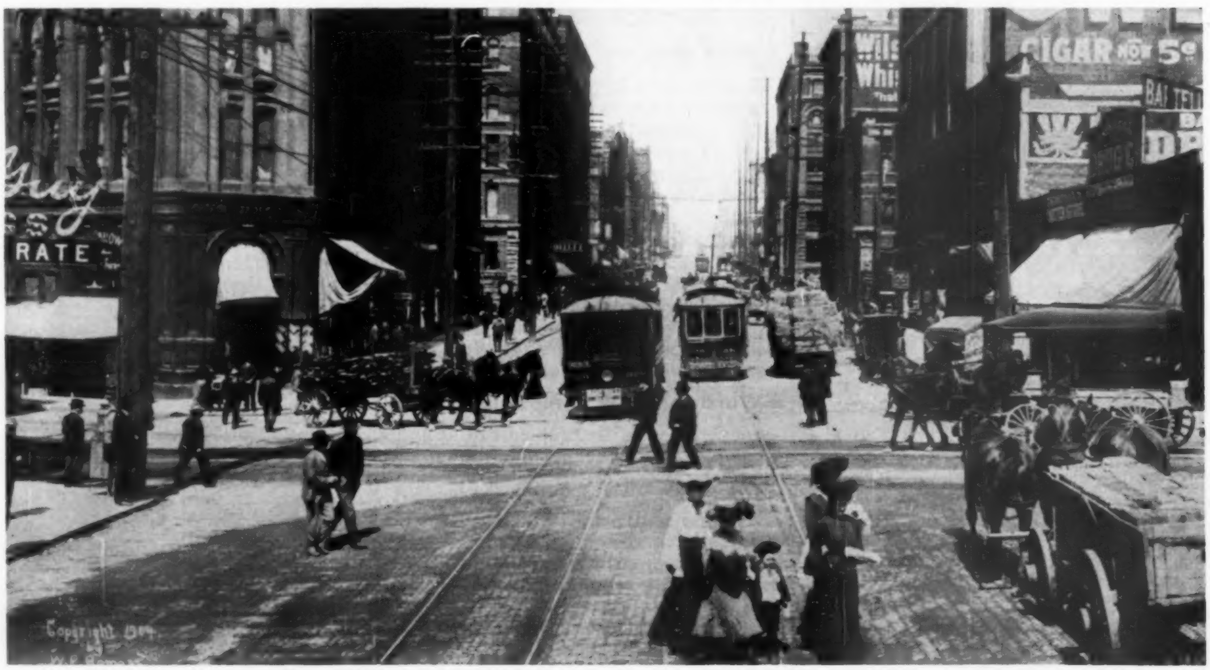
He owns three Cadillacs—one of which he rides over the range to oversee operations in cattle and logging. His house, a $300,000 ranch-style palace, adjoins a $50,000 swimming pool.

• **Orthodox Types**—Hudspeth's flamboyance is not typical of the Northwest businessman, though. The average executive in the region is much less flashy. He is set apart from his counterparts on Wall Street or Madison Avenue mainly

HOMESTEADERS in Washington Territory had to cut their dooryards out of the tall timber.

THE FOREST continues to be the Northwest's chief source of wealth, despite industrial growth.

SEATTLE (below in the early 1900s) became a commercial center in Yukon gold rush, will have its own fair in 1961.



by a somewhat easier pace and perhaps more openness of disposition; he is also fortunate—and knows it—in that he can reach a pleasant home with lawn and trees and maybe even lakeshore frontage without commuting for an hour or more. Norton Clapp, for instance, the board chairman of Weyerhaeuser Timber, goes home to a waterfront establishment just a few miles out of Seattle, on the east side of Lake Washington.

But like businessmen everywhere, he lunches at a club where he can hobnob with colleagues. In Portland, it will be the Multnomah Athletic or Aero Club if he's a younger official; the Arlington Club if he's older and thoroughly well-established. In Seattle, roughly the same distinction prevails between the Washington Athletic and Rainier Clubs.

Even if he's a bank chairman, like Lawrence Arnold of Seattle-First National, he probably drives his own car. And he is delighted that the car will take him expeditiously into a tantalizing region. Its allures quickly covert him to a Northwest booster—a more conservative, but still persistent, version of the Californian. Egil Krogh, general merchandise manager of Portland's Meier & Frank, during a 30-year stint with Marshall Field spent several years at Field's Seattle outlet, Frederick & Nelson. Eventually, he came back to the job at M&F, because, he says, of "the years I spent at Frederick & Nelson."

"I like," he concludes, "the freedom of the place, the openness, the mountains, the green forests, the water; I love to fish and all the things that go with it." END

FLORIDA...

unique manpower story

Actual case histories prove ease of recruiting skilled craftsmen, low turnover, high productivity . . . outstanding technical training facilities . . . manufacturing employment up 72% between 1948-1958 . . . 1958 wages, salaries up 17.4% over 1957.

Probably no other state has so bright a manpower picture as Florida. It's a picture that figures prominently in the large numbers of plants springing to life here (over 1,500 new plants and major expansions were announced from January, 1957, through December, 1958).

A closer look

Some of the elements which make Florida's manpower situation so advantageous to industry:

RECRUITING— "Florida definitely attracts people for jobs," says an officer of Heyden Newport Chemical Corp., Pensacola. The firm employs about 500, including many technical people, has never had to conduct

Radio-Electronics Television School, Miami, symbolizes excellence of technical training facilities throughout Florida.

extensive recruiting programs because it always has plenty of applicants. Martin Co. in Orlando; Rayonier, Inc., in Fernandina Beach; many others report parallel experiences.

LOCAL LABOR — Firms report a good supply of high quality workers living within the State; this labor is available to help staff many large plants as well as most small plants. In rural counties, increasing mechanization of farming has actually created a labor surplus. Company after company states that local labor is eager and able to learn, and does not demand high wages. Labor-management harmony is the rule throughout Florida, fostered by a conservative political climate. A right-to-work amendment to the State Constitution was passed in 1944.

Eastern Air Lines, Miami, is one of several airline industry leaders which have found skilled manpower easy to recruit in Florida.

ON-THE-JOB PERFORMANCE — Average number of hours worked per week in 1957 was 40.6, compared to the U.S. average of 39.8. "Ideal climate and therefore an exceptionally low rate of absenteeism" are plusses reported by an executive of Radiation, Inc., in Melbourne, who adds, "our experience has been that capable workmen prefer to live and labor

Florida's ideal climate fosters healthful recreation, happier living, more productive employment 'round the calendar.

in a community such as this." Electronic Communications, St. Petersburg, says, "We find the workers here, willing, intelligent, self-respecting people. We're happy with them." Similar stories come from Sperry Electronic Tube, Gainesville; Aerosonic Corp. in Clearwater; many others.

TECHNICAL TRAINING—Florida's 1957 vocational education enrollment was sixth largest in the nation. In a large number of communities, vocational schools are considered integral parts of county school systems. Schools in Escambia and Dade Counties, for example, operate technical programs at the high school level. Extensive technical laboratory facilities are being installed at Pensacola Junior College and St. Petersburg Junior College.

"We were attracted," says a General Electric Co. spokesman in St. Petersburg, "by an excellent state university for technical training and education." Training cooperation is being offered by the University of Florida, Gainesville; Florida State University, Tallahassee; and the University of Miami in Coral Gables. In Pinellas County, a Council for Higher Education provides specialized training through nearby colleges for a number of firms.

Florida is the only state in the Southeast which has a State Apprenticeship law.

Impressive results

Some of the results of Florida's favorable manpower situation are worth noting: Manufacturing employment has risen 72% between 1948 - 1958; rise in the U.S. for the same period was less than 1%. During the "low" months spanning October, 1957-October, 1958, Florida ranked second in gain in manufacturing employment. Eight of the leading firms in the State's $150 million-a-year electronics industry added 1,600 employees in the "recession" months of April, May, June, 1958. Manufacturing wages and salaries in 1958 were up 17.4% over the previous year.

MORE VITAL FACTS ABOUT FLORIDA: permanent population now tops 4,500,000, will reach more than 7,000,000 by 1970 . . . the State is the nucleus of a rich and growing market area comprising the thriving Southeast and Caribbean Latin America . . . State Constitution prohibits State corporate and individual income taxes . . . abundant opportunities exist for sub-contractors.

Wholesale manufacturing value of paper, paperboard and related products was over $453 million in 1957.

Facts, figures, surveys

The Industrial Services Division of the Florida Development Commission has prepared all-new factual studies on Markets, Manpower, Taxes, Transportation, Resources, Living Conditions, Research, Power and Water. These studies are available to you at your request.

In addition, the Industrial Services Division will gladly conduct special studies and assist in selecting sites.

All inquiries are held in strictest confidence. Write today to B. R. Fuller, Jr., Executive Director, Florida Development Commission, 3803-4 Carlton Bldg., Tallahassee, Florida.

Come see Industrial Florida for yourself. Write State of Florida, Dept. C, Carlton Bldg., Tallahassee, for new 100-page color Vacation Guide Book to help plan an all-Florida tour.

In Management

• • •

Missile Team Switches Jobs Again To Stay in the Climate It Wants

Fourteen missile researchers who have job mobility but not geographic mobility last week switched their affiliation for the third time this year. This time, they hope, they have found a corporate home.

The group of space scientists and technicians met at Curtiss-Wright Corp.'s Aerophysics Development Corp. in Santa Barbara, Calif. Laid off there early this year, all of them went to work for Avco Mfg. Corp. Then Avco decided to concentrate its missile research at its Massachusetts laboratories. **Unwilling to leave Southern California, the 14 quit and formed their own company, Advanced Technology Corp., to specialize in research and design for satellites and missiles.**

Last week Electronic Communications, Inc., of St. Petersburg, Fla., announced it will acquire Advanced Technology in exchange for 1,000 shares of ECI common stock. Advanced Technology will be operated as a wholly owned subsidiary. The 14 will stay on their present jobs in Santa Barbara.

• • •

Gravel Company's Profit-Sharing Fund Rides High on Stock Market Boom

Just what can happen to the assets of a profit-sharing fund in a booming stock market was shown graphically by this week's report of the Material Service Corp., a Chicago sand and gravel company headed by Chmn. Henry Crown.

The trust fund chalked up a 40% appreciation on holdings during 1958. When the appreciation is added to the company's $644,055 contribution, **the fund's total value shows an increase in total value from $4.4-million to $6.7-million.** At least one employee of the company had his balance in the fund increased by double the amount of his regular salary.

The trust's funds are mainly invested in common stock, especially those paying a high yield. **This policy can have its disadvantages, as in 1957 when stock values tumbled.** In that year, company contributions (maximum permitted is 15% of total payroll) barely managed to offset losses on the portfolio.

• • •

Employers Check Workers' Health Far More Closely Than a Decade Ago

U.S. Corporations are becoming increasingly interested in their employees' health; so company medical departments are expanding greatly in scope.

More than 80% of 242 companies that answered a new National Industrial Conference Board survey require medical examination before any employee is hired. In 1948, a comparable study by NICB showed that only 59% had such a requirement. Periodic examinations during the employee's work career and exit checkups when he leaves are also becoming increasingly common.

Not only are the examinations more frequent, but they are also more complete than they were 11 years ago. Today, for instance, 97.3% of the companies require eye examinations of prospective employees, and 96% require ear examinations; in 1948, the figures were 65.6% and 46.5%, respectively. Other corporate medical services are making an appearance too: 6.7% of the companies have dentists on their staffs, and 10 have psychiatrists on a part-time basis.

One of the major changes in the past 11 years has been **the increasing importance given to executive health.** In 1948, hourly workers—often in dangerous occupations—were the most frequently examined group, and executives the most ignored. Today the medical examination is most often an across-the-board requirement.

• • •

Management Briefs

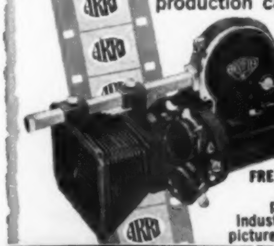
The chorus of businessmen urging businessmen to get into politics (BW—May30'59,p45) was joined last week by a new voice with a slightly different message. Atomic Energy Commission member Willard F. Libby **asked scientists to run for public office,** particularly for Congress. Scientists who can only advise, without responsibility, he said, cannot deal properly with vital national decisions. Libby said he would like to see scientists make up 2% of Congress.

Specialized training in business writing and reporting will start this fall at Columbia University's Graduate School of Journalism under grants from the Clapp & Poliak Foundation, Inc. Recipients of six fellowships and scholarships totaling $7,500 will get a special program in economics and business writing in addition to the regular journalism courses.

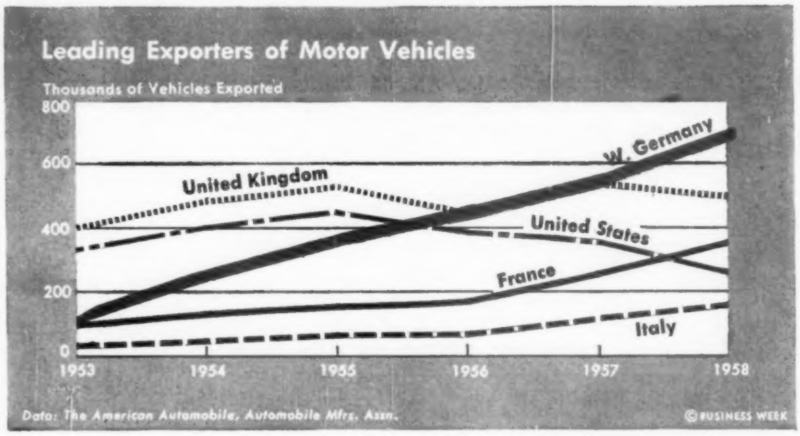
Art Metal Construction Co., of Jamestown, N. Y., which claims to be the oldest manufacturer of metal office furniture in the country, has gone into the wood furniture business. Art Metal bought the Knoll group of furniture and textile companies, will operate them as subsidiaries. Florence Knoll, president of the three companies, will become design director for Art Metal. . . .

. . . Other companies moving into new lines last week included **U. S. Tobacco Co.** and **General Tire & Rubber Co.** The snuff and pipe tobacco maker has agreed to buy Circus Foods, Inc., San Francisco package of candy and nuts, and General Tire has formed, with Formfit Co., a new company to manufacture rubber girdles under the trade name "Sleex."

Even when a company insists that its top executives take some vacation each year, many of them stay away less than the full time allotted to them. The magazine, Greater Philadelphia, queried 300 companies in that area and found that at least some of the brass in two out of three companies failed to use up all their vacation time. Yet 47% of the companies said they require their executives to take a yearly vacation.



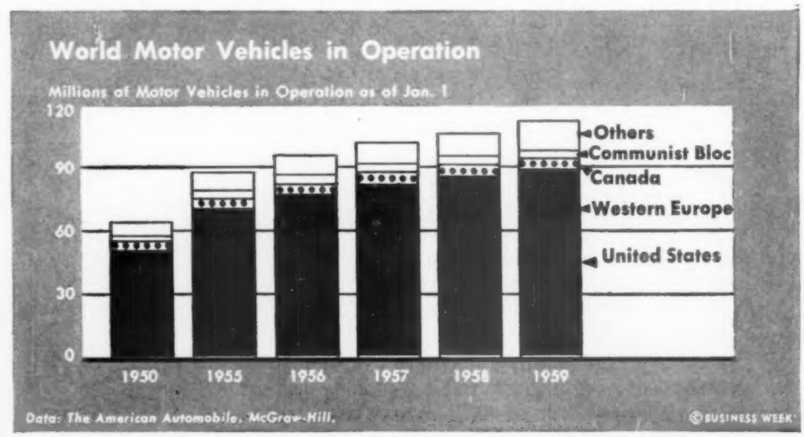
CHARTS OF THE WEEK



West Germany Keeps First Place

For the past three years, West Germany has been the leading exporter of motor vehicles, setting new world records in 1957 and 1958. Almost half of its 1958 production went to foreign markets, with the U.S. its best customer. Last year, West Germany far outdistanced the United Kingdom, its closest competitor, shipping almost 734,000 vehicles compared with Britain's 509,000.

The U.S. position in auto exports has slipped badly due to several factors: import restrictions, foreign competition, resistance to price and size of U.S. cars, and expansion of Detroit-owned assembly plants overseas. Back in 1951, the U.S. held the world title with almost 434,000 exports; last year it had dropped to fourth place, with less than 278,000. France moved into third place with exports of over 358,000 vehicles.



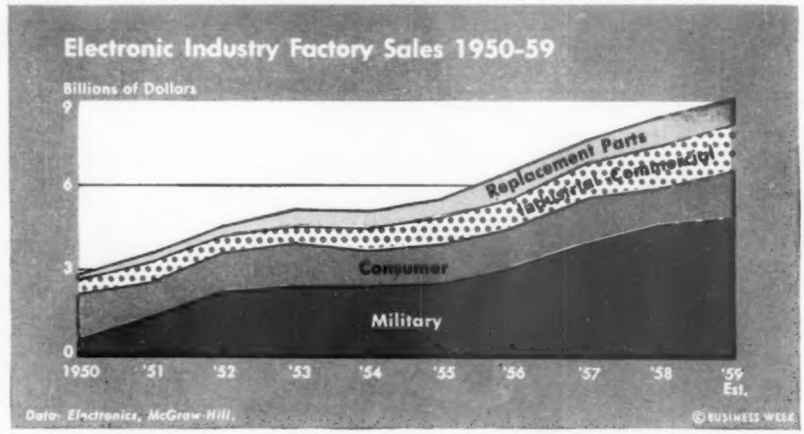
U. S. Still Leads—But Slips

The world's fleet of cars, trucks, and buses increased by 5.7-million units last year, and on Jan. 1, 1959 had reached almost 112-million. More than 60% of these—68-million—were creating traffic problems in the U.S. Since world production last year was 11-million, it appears that well over 5-million old vehicles were scrapped—and of these at least 80% were in the U.S.

For the first time in modern history, North America slipped down to second place in the net yearly increase in motor vehicles. While the U.S. and Canada were adding 1.4-million cars, trucks, and buses to the traffic stream, Western European countries increased their vehicles registrations by almost 2-million. Ten countries, led by the U.S., showed registration increases of more than 100,000 units. Most impressive gains were made by West Germany, where registrations were up 19.4%, added 650,000.

Another historical first: Overseas

manufacture of cars, trucks, and buses topped U. S. output. Last year's slump in the U. S. domestic market brought a U. S. production decline of more than 2-million units, one of the largest in our automobile history.

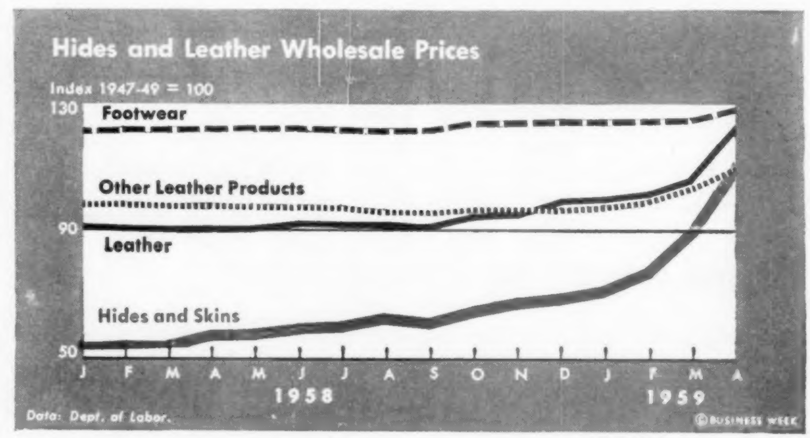


Military Needs Spark Rise

Factory sales of electronic equipment are expected to top $9-billion in 1959, 8.2% more than last year and triple the 1950 figure.

Military electronics sales, paced by aircraft and missile needs, have sparked this growth and will account for $4.9-billion or more than 54% of total electronic industry sales. The increasing U. S. military dependence on electronics shows up strikingly when the 1955 figures are compared with 1950. In 1950, despite the Korean War, military electronics sales were only $560-million or 20% of industry sales.

Industrial and commercial electronic equipment has been another fast-growing segment of the industry. Increasing use of computers, test instruments, and controls have boosted sales from $400-million in 1950 to an expected $1.6-billion in 1959.



Shoes Caught in Price Pinch

A sharp advance in the prices of hides and leather will result in higher price tags this fall on shoes and other leather goods.

BLS figures reveal that prices started edging up early last year, but the biggest increases occurred during the first four months of 1959. The hides and skins price index shot up from 68.7 in January to 108.5 in April; leather prices advanced too, but not so drastically—from 99.3 in January to 120.4 in April.

Despite these increases, footwear wholesale prices held even (except for fractional advances) until April when they also rose sharply. Prices of other leather products were pulled up as well, but started earlier.

Democrats Find Good Times Bad

● Return of prosperity strands their recession-geared program despite big Congressional majority.

● At the same time, Republican leadership shows an unexpected resurgence of vitality and skill.

● So, a "lame duck" President and a vigorous minority have cut their foes' ambitious program down to a modest and frustrating size.

For Congressional Democrats who left Washington in January with a program geared to business recession and to a near-prostrate Republican opposition, prosperity and a surprisingly vital GOP leadership are proving quite a strain.

With adjournment some 10 weeks away, the ambitious goals set by party leaders in the halycon days following last November's lopsided election victory are still out of reach—and in political terms, perhaps out of date.

• **Faith in "Mandate"**—The session opened less than six months ago with Democrats convinced that they had a mandate from the voters to "do something" about the declining economic situation.

The gavel had barely fallen when committees started to work on legislation for an ambitious program of housing and airport construction. Senate Majority Leader Lyndon Johnson moved in with plans to study unemployment. There was much talk of inviting an early Presidential veto so the heavily Democratic Congress could demonstrate its ability to over-ride.

As the Democratic leaders prepare for the final weeks of the session, they and their troops in the House and Senate are painfully aware that things have misfired.

• **New Atmosphere**—An improving economic atmosphere has taken the force out of whatever "mandate" for spending existed.

Instead of a tired President with declining influence, they are faced with a vigorous Eisenhower who has demonstrated a willingness to fight to the wire for the essentials of his program.

The Republicans, heedless of the Democrats' numerical superiority, are showing a new and embarrassing capacity for political maneuver under the generalship of Rep. Charles Halleck of Indiana and Sen. Everett Dirksen of Illinois.

Perplexed Democrats face the harsh necessity of shifting gears to meet the new situation.

Last week, Senate Leader Johnson outlined the legislative program that he hopes this Congress will enact between now and the adjournment of its first session this fall.

It was intended, of course, to give a positive impression. But actually, many observers felt, the most important thing about the outline was its implicit admission that the 86th is helpless to attain many of the biggest goals its leaders had set for it.

For the most part, the Johnson calendar featured routine and other "must" items—such as extension of the 52% corporate income tax rate and continuation of excise taxes at Korean war rates, a construction authorization bill for the Atomic Energy Commission, and renewal of Public Law 480 for disposal of surplus crops overseas in return for local currencies.

• **Debt Ceiling**—Among approximately a dozen items, many of lesser general importance, only a couple rate as comparative standouts in such an agenda. One is raising the ceiling on the national debt, a step that will be taken at Pres. Eisenhower's request. The second is new civil rights legislation, about which Democrats themselves have some important reservations.

For one thing, few believe the Senate can or will write a strong or tough civil rights measure. For another, such legislation will sharply divide Democrats themselves in one of the year's bitterest debates. For a third, there's no assurance that the House will follow suit even if the Senate does pass a bill.

• **On the Defensive**—This sort of appraisal of the remainder of the year, coupled with the trouble encountered by key Democratic bills already in various stages of advancement, merely underscores one of Washington's most intriguing political situations in recent years: The Democrats', despite their top-heavy Congressional majorities, have been put on the defensive.

Their housing bill, one of the early session Democratic showpieces, hasn't yet reached Eisenhower because party strategists fear a veto and think that delay might be the bill's salvation. The bill, along with several big money programs that Eisenhower doesn't want, contains one thing he must have—new mortgage insurance authority for the Federal Housing Administration which, with every passing day, comes nearer to temporary financial paralysis.

• **Airport Bill**—There are other items to cite. A big-spending airport construction bill is being pared down in an attempt to come close to Eisenhower's financial specifications and avert a veto. The Democrats' area redevelopment, for depressed areas, bill squeaked through the Senate, but is now blockaded in the House Rules Committee with no prospect for early release—nor, for that matter, much chance to escape an ultimate veto.

Lyndon Johnson's proposed study in depth of unemployment, a move taken in the early spring, while the number of jobless was high, got a quiet unceremonious burial in the House once it became apparent that economic recovery was in full swing.

• **Labor Reform**—Labor reform legislation, having passed the Senate, is in deep trouble in the House with only slim chances for survival. There will be bitter arguments about placing the blame, but failure to enact labor reform will probably harm Democrats more than Republicans in next year's elections.

Agriculture affords one more example of the Democrat's dilemma. The only substantial piece of farm legislation thus far sent to the White House permits continuation of present coloring practices in the orange-growing industry. Democrats have worked at it all year, and they simply have not been able to agree among themselves on how to overhaul the basic farm program that continues to pile up federally-subsidized surpluses.

Republicans, borrowing from their old nemesis Harry S. Truman, have been finding political salt in the Congressional situation—and they're rubbing it steadily into the Democratic wounds.

From the election stump in 1948, Truman in his "give 'em hell" campaign blasted the GOP-controlled 80th Congress as "do nothing" and "the worst." In the pre-election warmups for 1960, the Republicans are alternately calling the 86th the "Won't Do Congress"—in reference to farm, labor, and highway financing problems, and to the bitter partisan fights about Clare Boothe Luce and Lewis L. Strauss—and blasting the Democrats as "budget busters" for their espousal of big spending problems on housing, airports, area

development, and similar measures.

• **Prosperity**—Democrats, caught with a program largely geared to recession, have yet to complete a turnaround to cash in on the rather sudden return of fullblown prosperity. But they're starting to move. A tax reduction seems likely to be voted by the Democrats next year. And indications are that they aim to make lots of political hay with the Administration's moves toward higher interest rates.

It is still too early, of course, to write off entirely the chances of farm and labor reform. After all, they can be put over until 1960 along with such other likely carryovers as school construction and minimum wage legislation. However, if Congress cannot enact some laws in these politically delicate fields in 1959, a non-election year, there's every reason to doubt it can do so in a Presidential year.

The first session of the 86th, with 10 or more weeks to go, has been marked by a bit of irony that isn't yet widely recognized. While they have been "budget busters" with such proposals as housing and airports, the Democrats actually have been "out-saving" Eisenhower elsewhere.

By this week, the House had passed 18 routine money bills. In one, for activities of the Health, Education & Welfare Dept., the House went over the budgeted figure, adding $181-million for more medical research.

In three others, the House voted exactly the amount the President asked. One of these, remarkably, was the so-called "pork barrel" bill for public works. In this one, the Democrats did manage to violate Eisenhower's no-new-starts policy, but they spread money thinner elsewhere to take care of the 40-odd new projects they voted.

In the 14 remaining appropriation bills, among them the $39-billion Defense Dept. measure, the House has clipped $751-million off Eisenhower's estimates.

• **"Net Saving"**—The Senate tends to be more generous and probably will restore some of the House cuts, but the ultimate results on routine appropriations this year will almost certainly be a net "saving"—on paper, at least—of a half-billion-to-one-billion dollars. Much of it will probably be restored ultimately, but perhaps not until next year via the device of supplemental appropriations.

Otherwise, up to now, the 86th has little claim to distinction, a fact conceded by some of its own Democratic members.

It has passed an extension of the Draft Act, has noted $110-million for new naval vessels, $183.5-million for the National Aeronautic & Space Administration, an increase in railroad retirement benefits, and a three-month extension of temporary unemployment benefits. These, aside from Hawaiian statehood, are the major bills that have made their way through the legislative mill since January

• **Dissent Grows**—Lyndon Johnson's theory that the best Democratic strategy is to compromise and work toward an accommodation with Eisenhower is being viewed with a suspicious eye by more and more Democrats—especially since the President has given no signs of compromise on his part and, in fact, has been taking a tough attitude toward Congress in recent weeks.

Sen. Hubert Humphrey (D-Minn.), one of the potential Presidential candidates, finds the outlook galling and is among those now publicly expressing doubt about the technique of Johnson, one of his possible rivals for the nomination. Says Humphrey, "it is not enough to settle for the expedient, or even just what appears more easily attainable under the handicap of Presidential veto threats. The greatest mistake our party could make is to be intimidated in any way . . . and water down our vital programs on the ground that it is all that is 'attainable.'"

Another view has been expressed by another Democrat, freshman Rep. Frank Kowalski of Connecticut, a war hero and onetime comrade at arms of Eisenhower in Europe. He accuses Eisenhower and the White House of dominating Congress—"it is literally unthinkable that the citizens of our country want a Congress which is unwilling, or afraid, to use its own best judgment on public issues. I cannot believe we . . . were elected to have our thinking regimented and our decisions dictated."

• **Rules Don't Work**—Thus is brought into focus the true irony of the situation that grips steamy Washington these days. All the political rules say that the President, in the final 18 months of his tenure, should be at his low point in prestige and actual influence. But the rules take no account of the fact that in a prospering economy a President actually can shove Congress around if he wants to, lame duck or not.

"Master Plan" for Air Defense

Defense Dept.'s new program is mostly a decision to reduce production of Nike Hercules and Bomarc missiles.

The Administration's highly-touted new "master plan" for continental air defense (BW—May30'59,p31) has turned out to be a decision to continue production of the two rival antiaircraft missiles—the Army's Nike Hercules and the Air Force's Bomarc, but with both at a reduced rate.

In secret testimony before the Senate Armed Services Committee last week, Defense Secy. McElroy laid out the revised plans. He estimated that the new cuts would reduce proposed spending for air defense over the next five years by $1.5-billion.

This is reportedly a cut of close to 25% in the over-all program. The Bomarc cut, for both missile production and building of bases, amounts to roughly $900-million; the Nike Hercules cut, about $600-million.

Bits and pieces of McElroy's testimony have leaked out so far—mostly through Senators on the committee. It's clear that the Pentagon's top echelon still believes the threat of attack by manned bombers is serious enough to justify continued spending for defensive antiaircraft missiles.

There is still great disagreement, however, among McElroy's military advisers, over the amounts to be spent on the competing missiles. The latest decision is just another Pentagon compromise. It has already stirred up Congressional criticism. But the Army, which has been facing a Senate-imposed freeze on construction of Nike Hercules bases, is breathing a sigh of relief.

The Defense Dept. plans to reduce spending of funds already voted by Congress for Nike Hercules and Bomarc production and base construction by $82-million. Most of this cutback will affect the Nike Hercules.

The Bomarc is getting the bigger trimming only because its scheduled rate of spending is much higher than the Nike Hercules, which is already in volume production and now deployed at operational sites. The first Bomarc unit, in the metropolitan New York area, will not be operational until later this year.

While cutting spending for antiaircraft defenses, the Pentagon's revised plans call for stepping up research and development on the Army's Nike Zeus anti-missile missile system ($157-million more next year) and on other anti-missile projects.

Actually, final details on the rival missile projects have yet to be worked out. The Pentagon hasn't translated its proposed expenditure cuts into numbers of construction projects and the like. Besides, Congress has still to vote the final defense appropriation, which could knock the Pentagon's new "master plan" into a cocked hat.

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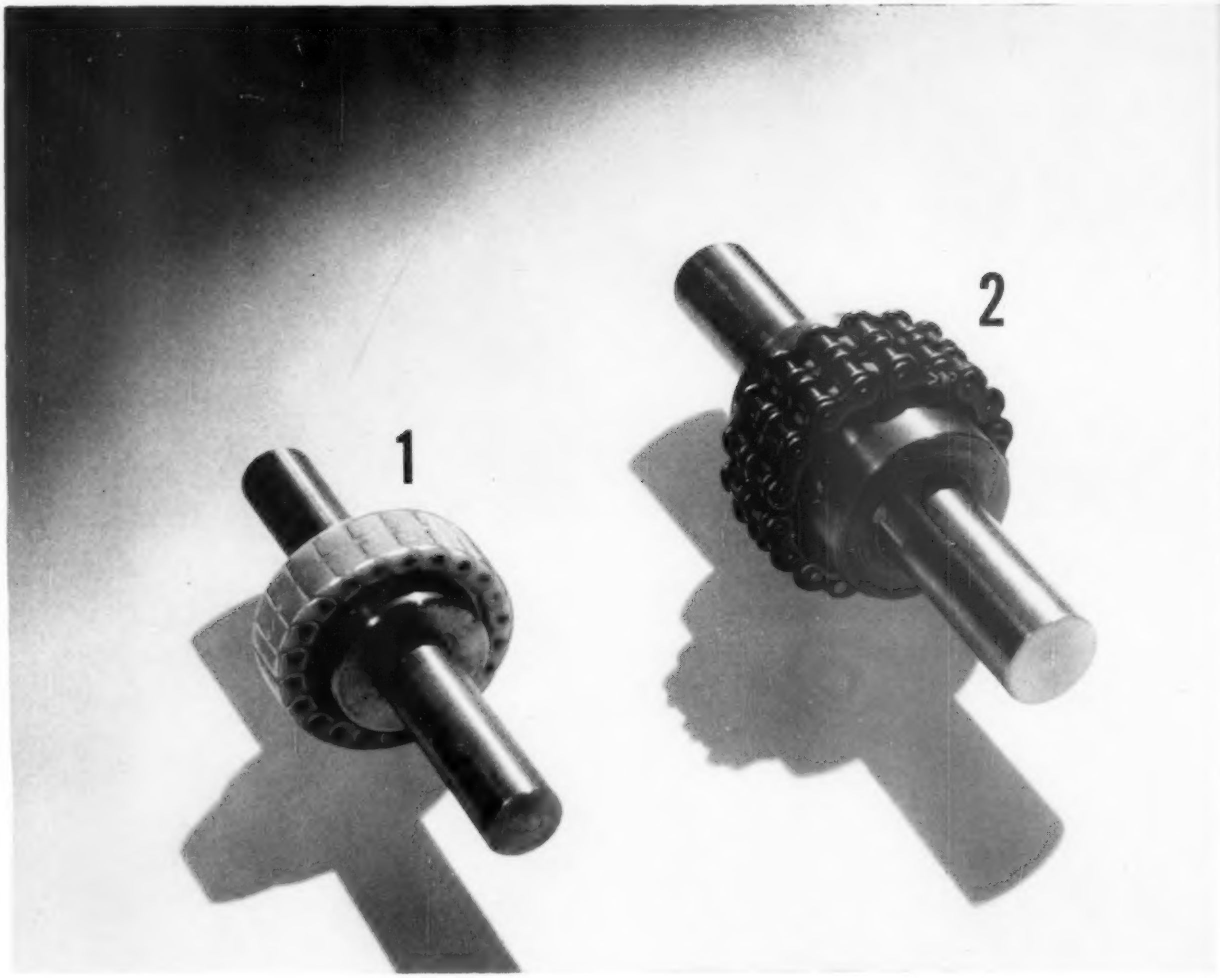

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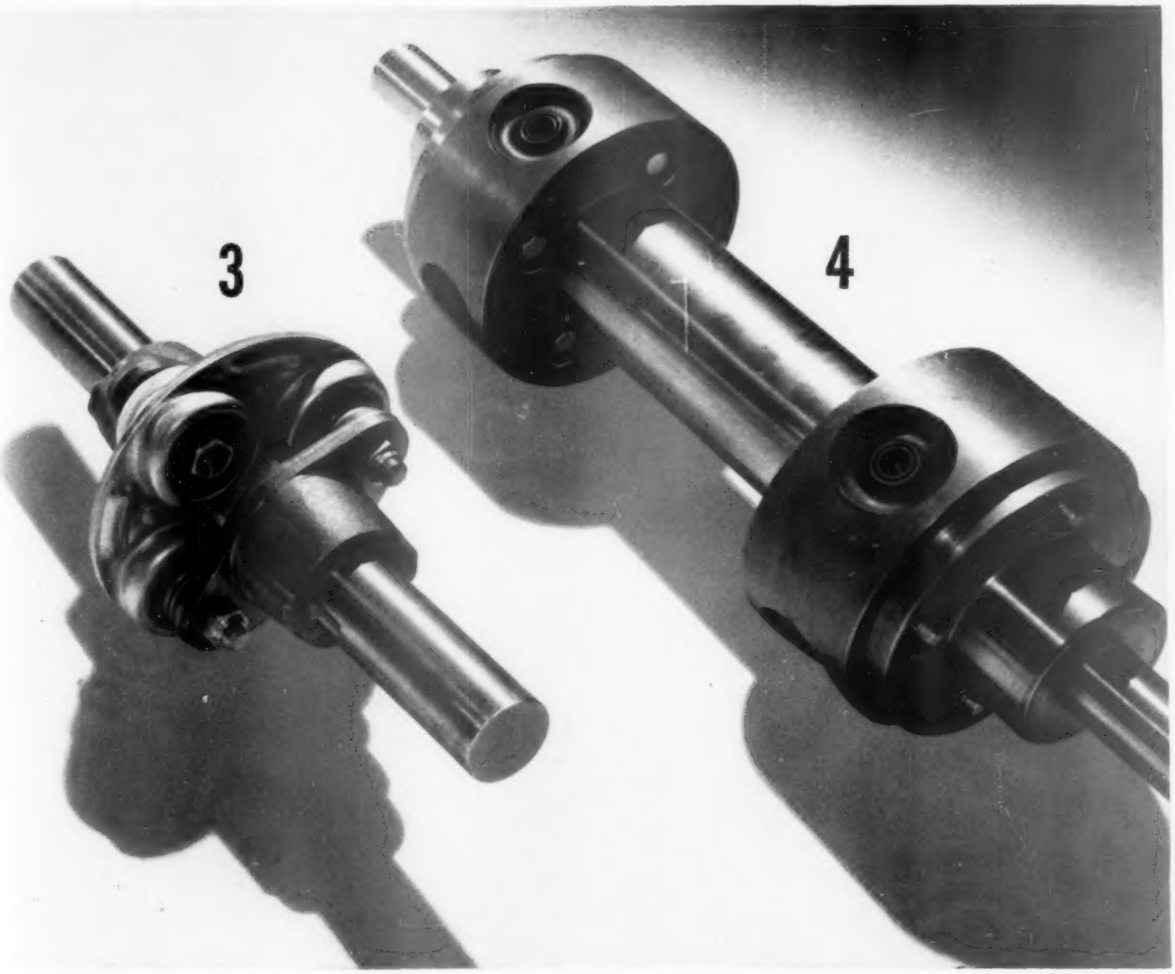

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AEC Aims at 10-Year Plan For Power Reactors by January

For years, everyone connected with atomic-electric power has talked of the need for a long-range development program to end confusion in civilian reactor planning. The best that the Atomic Energy Commission and the Joint Congressional Committee on Atomic Energy have been able to achieve is an uneasy truce over the program from fiscal year to fiscal year.

This week, Ulysses Staebler of AEC's Reactor Development Div. told the annual meeting of the American Nuclear Society in Gatlinburg, Tenn., that AEC hopes to have a 10-year program by next January.

In this long-range plan, he said, AEC hopes to be able to evaluate the economic potential of each of the dozen reactor types that are in research or development and to sketch out a timetable for each type.

• • •

House Unit Studies Proposals To End Spectrum Squabbles

A House commerce subcommittee is considering proposals to end the chaos in assignment of radio-TV frequencies. A panel of experts agreed last week that the present dual responsibility between civilian and military users—with no one to settle the differences—causes waste of precious frequencies on both sides.

The Electronic Industries Assn., backed by Federal Communications Commission Chmn. John C. Doerfer, proposed a new "Federal Spectrum Authority" to divide frequencies between the FCC and the military. **Independent experts favored centralizing government-military responsibility in a special board and letting the board negotiate with the FCC.**

The Defense Dept. and National Assn. of Broadcasters, both with "vested interests" in the present spectrum, called for more study before anything is done. But others said the time has come for action, not study.

• • •

Project Plowshare Goes Ahead With Tentative Slate of 1960 Blasts

The Atomic Energy Commission is going full-speed ahead with its plans for peaceful uses of nuclear explosions. And it looks as if the next test will be a 10-kiloton blast in Canada's oil-rich tar sands in February.

Dr. Gerald C. Johnson of AEC's University of California Radiation Laboratory laid out a tentative schedule for Project Plowshare last week in a speech before the American Nuclear's Society's Washington chapter:

- A series of three shots in the Canadian tar sands—to be paid for by Richfield, Imperial, and Cities Service oil companies—will be set off next February if plans get final approval by Aug. 1. The object is to heat the sticky sands to the point where the oil can be pumped.
- AEC hopes that oil companies will be willing to pick up half the tab for an experimental series of blasts sometime next spring to break up millions of tons of oil shale in Colorado and make it susceptible to underground retorting and eventual production of oil.
- Also next spring, Johnson says AEC hopes to set off a nuclear device in a New Mexico salt formation to evaluate the prospects for producing electric power or radioisotopes through nuclear explosions.
- A decision will be made this fall whether or not to go ahead with plans for using five simultaneous A-blasts to carve a harbor out of the bleak shoreline of northern Alaska in April, 1961.

All the experimental shots are tentative, depending not only on the budgetary factor but also on the outcome of U.S.-Russian negotiations over weapons testing.

• • •

Military Procurement Personnel Held Lacking in Business Experience

Most of the Defense Dept. officials negotiating billions of dollars in government contracts each year wouldn't have been able to land a similar job in private industry. This is the key finding in a special report to the House Armed Services Subcommittee on a survey of military procurement personnel.

The report said the armed forces don't have the personnel qualified to "meet the problems that arise daily." **It places most of the blame for this on the practice of filling 75% of key jobs with uniformed officers who have made a career of the military service.**

A total of 64% of all the military's procurement officials had no purchasing experience in private industry, the report notes, while only 9% had enough business experience to have qualified for a comparable job in industry.

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Senecas Lose Court Fight to Block Flood Control Dam on Reservation

The Seneca nation lost its fight this week to block construction of a federal flood control dam on the Allegheny River at Kinzua, Pa. In a futile plea to the U.S. Supreme Court, **the Senecas had sought to upset lower court rulings holding that Congress had granted the government authority to condemn Seneca reservation lands in western New York.** Much of the reservation will be flooded by the $113-million federal project.

The Supreme Court merely refused to review the lower court rulings. The Indians argued Congress did not really consider their rights under a 1794 treaty when it appropriated the first funds for the project in a general public works appropriation bill. Though the Supreme Court's action ends the Seenca attempt to block construction, **there probably will be further litigation on the question of compensation.**

COMPANIES

Soaring on Wings of the Lark

HAROLD CHURCHILL, president of booming Studebaker, brings an engineer's mind and training to a big-business job.

A. J. PORTA, top money man, played a big role in unscrambling Studebaker's debt load, thus paving the way for Lark to take off.

Profits pour in to busy Studebaker-Packard as compact car's success has all South Bend rejoicing.

The main line of the New York Central RR passes just across the street from the fourth floor office of the President of Studebaker-Packard Corp. and frequently these days a reporter's question hangs in the air while a freight train roars by outside. "A lot of people object to that noise," says Harold E. Churchill (cover), "but I like to hear those trains. It's one of the best barometers of business I know."

A few miles west, Beare C. Philipson, vice-president and general manager of Robert Walker, Inc., which for years has hauled Studebaker's cars out of South Bend, takes in his busy marshaling yard with a wide sweep of his arm. "This year I'm operating 200 rigs. Last year this time I had 130 parked against the fence."

At his post near the body-drop of the twin final assembly lines on the second floor of Studebaker's old, old plant, Repairman Bill Fucsick has time to talk to the reporter. Never before in his 18 years with Studebaker has a body repairman had so little to do, he says. The quality on the car is that good.

• **The Bell-Cow**—The trains are busy hauling material into South Bend; the drive-away trucks snort west and south all day and night; and the cars on the production line pass Bill Fucsick at the dizzy pace of 84 jobs an hour—one every 45 seconds—and everyone in town is breathing easier. Studebaker, the bell-cow of South Bend industry, is back in business.

It can hardly avoid turning a profit this year—for the first time since 1953. From Nov. 15 through May, dealers had delivered more than 80,000 Larks. At that rate, Studebaker could sell more cars than in any year since 1953.

No one tries to hide the fact that there could be rough days ahead again when General Motors, Ford, and Chrysler bring out their smaller cars to compete with Studebaker's Lark (and American Motors' Rambler). But that is borrowing trouble, and South Bend has had enough of Studebaker trouble without borrowing any.

I. Hometown Boy

A year ago, there was open disillusionment in South Bend with Studebaker. Some businessmen, weary of the repeated crisis in the company's affairs, were saying it would be better if the place were closed and the plant abandoned. Then at least the people would know where things stood, the uncertainty would be over. Into this psychological rebellion stepped Dr. L. D. Borough, a psychiatrist of course, who formed "Citizens for Studebaker, Inc."—probably the first time a group of townspeople had set out to do a community relations job for a firm.

Now the city's streets are plastered with signs "South Bend Goes Up With the Lark." Mayor Edward F. Voorde is engaged in a long-distance hassle with the mayor of a New York town—insisting that Larks are, too, big enough for burly cops. And there's a vague feeling abroad that the city ought in some way show Harold E. Churchill what it thinks of him. It's a clannish town; Churchill's predecessors, says a city official, were a bunch of promoters. "But Churchill's one of our boys. We pitied him two years ago because we thought they were giving him a dead duck."

Studebaker-Packard Corp. wasn't quite dead in August, 1956, when Churchill became president. It was worse off a year ago, when the plans for the Lark were first disclosed. If it is healthy now, although still fighting for its life, that's because a year ago no one concerned had any good reason to bury it. And the engineer's stubbornness in Churchill was good reason to try to breathe life into the corpse.

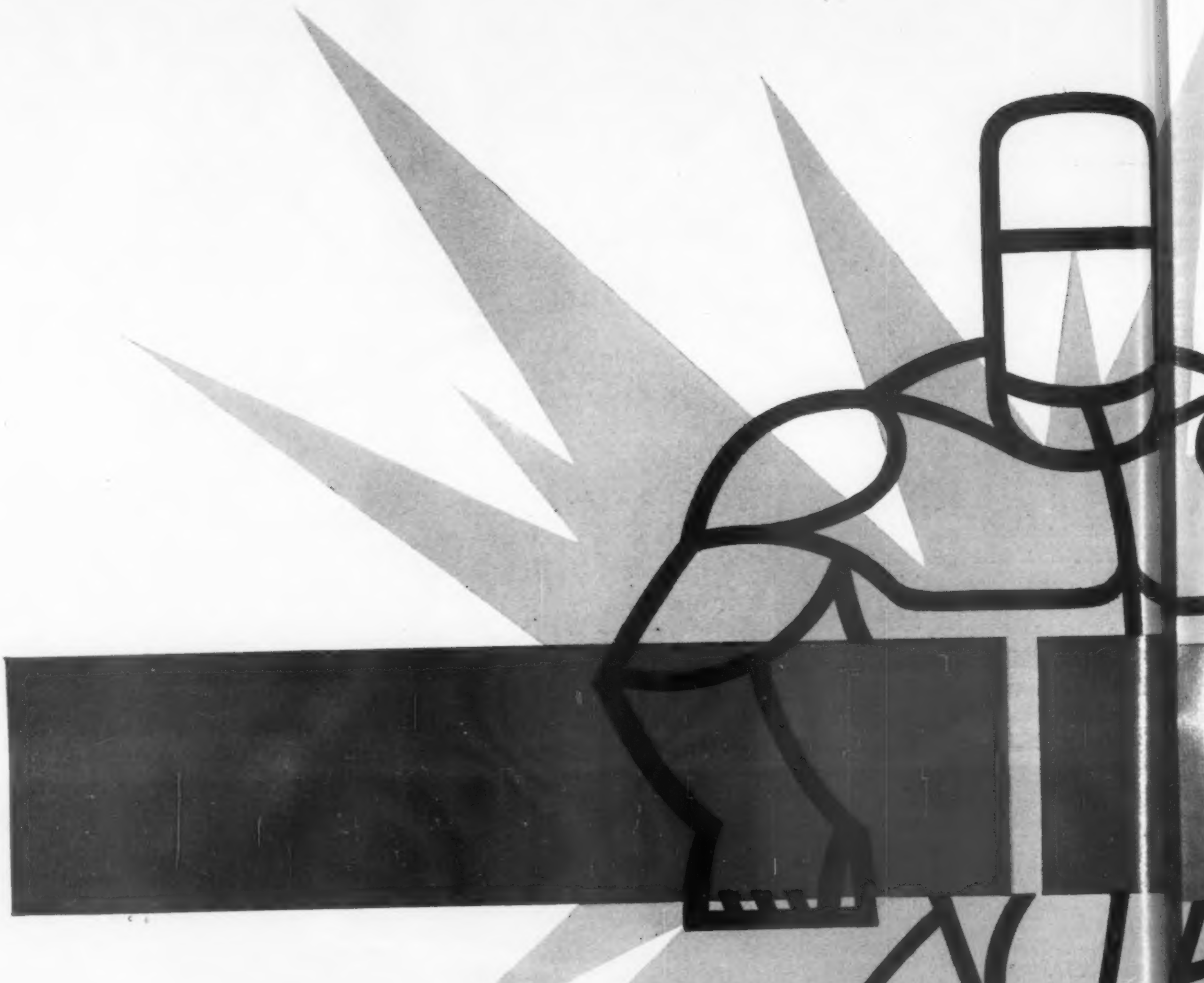
II. An Empty Till

On June 30, 1958, Studebaker-Packard Corp.'s balance sheet showed cash and marketable securities of $26.9-million, and accounts payable of $24.2-million. The stockholders' equity was gone. Losses in three years and six months had totaled $97.4-million and wiped out the surplus. Payments on loans from 20 banks and three insurance companies couldn't be met. "We were," says Executive Vice-President (and financial boss) A. J. Porta, "flat busted."

In reality, S-P was down and out in August, 1956, when it had plants and products of Big Three scope without the income to support them. That's when Roy T. Hurley and his Curtiss-Wright Corp. had come to the rescue with $25-million in advance rentals on leases for plants, and an agreement to give S-P management advice. Hurley's decisions made later improvement possible: He selected Churchill and recognized Porta's value; he recommended shrinking S-P back in size; a tour of

HIGH COMMAND at Studebaker is informal, small, compact—well fitted to the car that is bringing it success. Pres. Churchill, back to camera, presides over a shirt-sleeved executive conclave.

EIGHTY FOUR AN HOUR is the rate at which Larks are being produced. Here's the body-drop, where bodies are lowered on chassis; this chassis line feeds old plant's two final assembly lines.



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"The plan didn't bring in much additional cash but . . . it trimmed down the enormous debt load, and made the balance sheet more attractive . . ."

STUDEBAKER on page 126

dealers convinced him that S-P's future lay in small cars—a decision Churchill, always a small car man, enthusiastically shared.

• **Confident**—Even in the dark days of late 1957, when Porta was telling the creditors things were bad and getting worse, Hurley says now he knew S-P was going to make a profit, even though the balance sheet wouldn't look good. But by April, 1958, Hurley had decided not to pick up C-W's option on 5-million shares of S-P common stock and to terminate the management agreement—because his own company would require all his time and C-W's capital.

Consequently, discussions of how to refinance Studebaker-Packard began with Hurley and C-W cooperating. Churchill's ace was his product plans for the Lark, his personal creation. By late January, 1958, Churchill ordered a go-ahead on the Lark—even though the refinancing discussions had not gotten down to details. Because of the redirection of management given by Hurley, everyone was in a mood to give Studebaker-Packard another chance.

III. Presto, a Surplus

That chance was a refinancing plan, finally worked out last summer, which is certainly peculiar if not unique. The plan didn't bring in much additional cash, but it did two other important things: trimmed down the enormous debt load, and made the balance sheet more attractive. The cash came from Curtiss-Wright. Two years before, C-W had taken a long lease on several Studebaker-Packard plants and paid $25-million in advance rental. Now it paid $2-million additional and took title to the properties formerly leased.

The debt load was handled in this manner: S-P owed the banks $29.7-million, and the insurance companies $25-million. Of this $54.7-million total, $21.7-million was "forgiven." The balance of $33-million was split in two—$16.5-million was continued as loans bearing 5% interest and secured by every jot and title S-P owned; $16.5-million was transformed into preferred stock convertible after January, 1961, into common. (If the holders, on conversion, can sell the common for $7 or more a share they will recoup the $21.7-million that was forgiven.)

• **Switching**—The balance sheet was cleared up by some masterful switching of figures. Here's what happened: The $21.7-million of that $54.7-million debt was credited to earned surplus. The plants sold to Curtiss-Wright had a book value of about $10.5-million. But the rental not yet earned, $20,783,333, was carried as a liability. The difference, $10.2-million, was transferred to earned surplus, along with the $2-million received for sale of the plants. That gave earned surplus $12.2-million more.

Total credits to earned surplus then became $33.9-million, wiping out a previous earned surplus deficit of $21.6-million and leaving the account $10.4-million to the good.

Before the refinancing, capital stock and capital surplus had been $14.7-million. In the refinancing, this figure was increased by the $16.5-million in preferred stock. Before the refinancing, the stockholders were $8.8-million in the hole. After the refinancing, with the new capital account of $31.2-million, and the new earned surplus of $10.4-million, the stockholders' equity appeared at $41.6-million.

• **Cash Pours In**—Except for $825,000 annual interest, the refinancing leaves Studebaker-Packard with no debt payments until 1964. It has tax-loss credits of $121-million. Consequently right now cash is pouring into the vaults in a golden stream. The last quarter of 1958 brought a profit of $3.6-million—the first quarterly net in five years. This year's first quarter profit was $7.7-million, the second quarter will be almost as good. Even allowing for a third-quarter loss—a frequent happening in the auto business—the full year looks like a profit of $15-million and up.

Of course, when GM, Ford, and Chrysler come slamming in with their own small cars in the fourth quarter, all rules change. But you get no wrinkle of concern at Studebaker with that thought. Everybody takes his cue from the square-cut man in the office above the railroad tracks.

IV. The Changing Man

Harold E. Churchill is not a cocky man when he says Studebaker will do all right against big three competition. But he is a confident man. A South Bend friend of 20 years notices a change in "Church" since he became president. He's more self-assured, more confident of his own opinions on business and corporate affairs.

Churchill, 56 years old next month, was an engineer at Studebaker for more than 30 years. In August, 1956, when James J. Nance resigned as president of S-P, you probably couldn't have named a more unlikely candidate than Churchill to put Studebaker-Packard in the black, even temporarily. The popular impression was that he was to be a caretaker or front man for Hurley.

• **Watch and Learn**—While Curtiss-Wright was active in its management advisory role, with cost analysis, production, and financial men shuttling back and forth between New York and South Bend, Churchill sat, and listened and learned.

He lopped off the S-P executive superstructure and began building his own administrative team from his longtime Studebaker associates. In Porta he had a crackajack financial man and he gave him his head, making him executive vice-president and his deputy. There are only two vice-presidents, Sydney A. Skillman, sales; and R. A. Hutchinson, export.

Churchill's department heads stream in and out of his office all day long for decisions, something he is trying quietly to discourage for he recognizes that even in a small, compact organization responsibility and authority have to be spread.

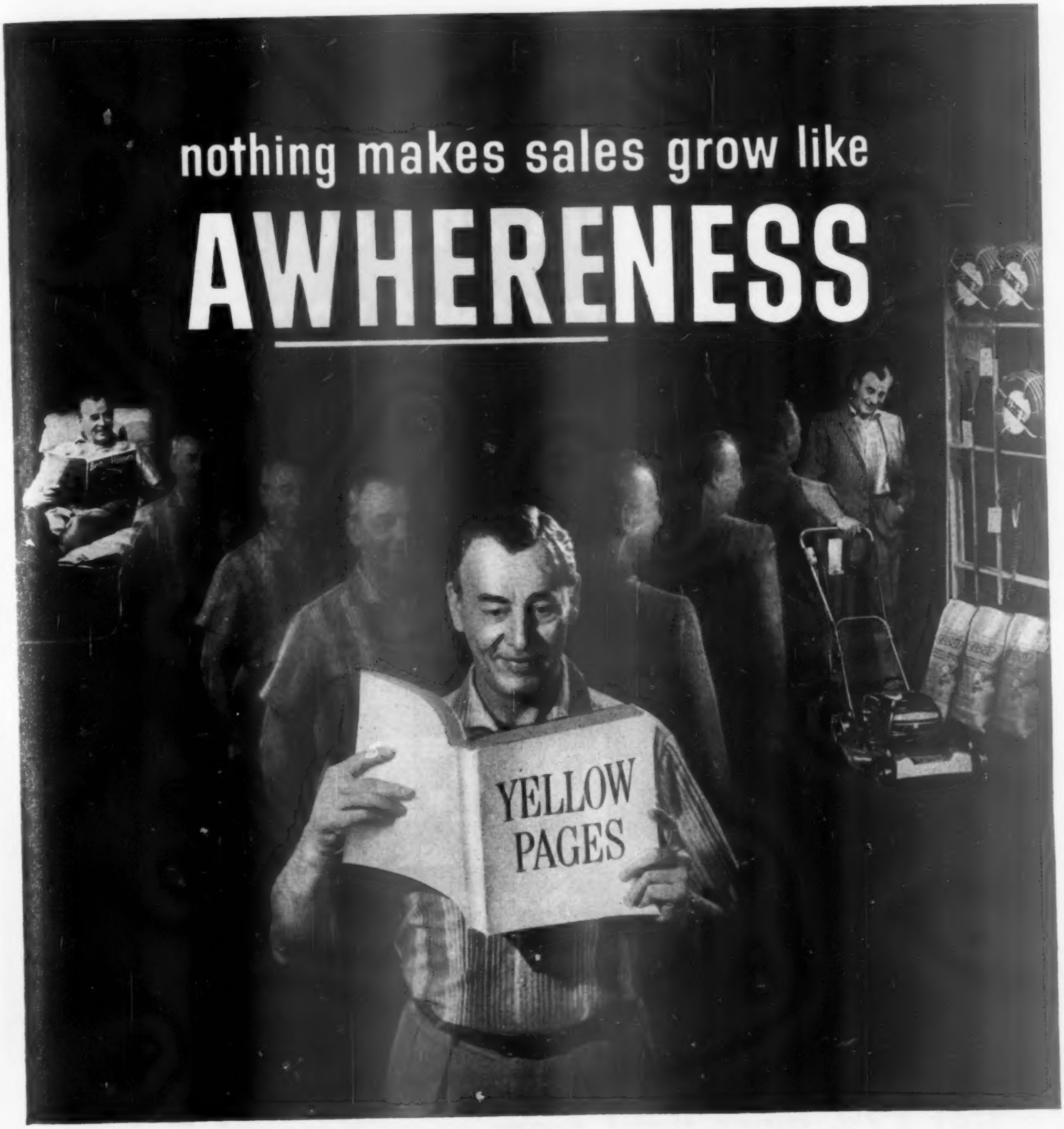
• **Hard to Change**—Both he and his colleagues find it hard to change; he has been too close to them too long. A restless man, he likes to stroll through the plant. One day he came back to his office spattered head to foot with tarry undercoat from standing too close to the spray booth. Another time he returned with his shirt greasy from a climb up a hoist to assure himself that a broken hook really had to be replaced and couldn't be repaired.

Those were the things an auto company president used to do years ago before lawyers, accountants, and salesmen took over the executive suites. Churchill is moving in a different and, for him, exalted circle. He's making speeches to bankers and college graduates. He's a power in South Bend. He ducks over to Germany now and then to dicker with Daimler-Benz, whose Mercedes cars Studebaker distributes in the U. S.

Sales of his company this year probably will go over $400-million—which makes him a very big businessman indeed except compared to his giant competitors. Those who know him well say he has made the transition from shop boss-type to industrialist-type smoothly and gracefully. He himself says he misses contact with engineer friends.

V. Reason for Confidence

That missing feeling is because he still thinks as an engineer, which is the key to nearly everything that has happened at Studebaker. It is a small, compact, flexible management producing a small, compact car. Says Churchill


nothing makes sales grow like
AWHERENESS
YELLOW
PAGES

". . . says Churchill: 'I've always had a personal fetish against things that are complicated and big . . .'"

STUDEBAKER on page 126

"I've always had a personal fetish against things that are complicated and big."

He has been a small-car man ever since 1939 when he and his present chief engineer, E. J. Hardig, helped design the Studebaker Champion. "I was cognizant of the necessity back in 1956 of directing our product philosophy away from head-on competition with the Big Three, Churchill says.

No matter what the Big Three do, Studebaker still won't be in head-on competition with them, that is, if you see things the way Churchill and his men do. Only the Lark and American Motors' Rambler next year will offer a V-8 engine in a compact car, and a third of all Larks are sold with the V-8. More than 70% of trade-ins on Larks are competitive makes (mostly Chevy, Ford, and Plymouth), indicating perhaps that many Studebaker owners who once were lost are returning to the fold.

- **Stress on "Service"**—Above all those reasons (which you can hear also at American Motors), is Churchill's own philosophy of how you get customers.

"Service," he says, "is the motivating influence on any business. If you provide service, profits will accrue. The service we can provide the consumer is to furnish him durable transportation, comfortable transportation, with nominal depreciation cost."

One factor in nominal depreciation cost, of course, is "stability of design"—meaning none of the sweeping appearance changes from year to year that have become Detroit custom. Churchill sees no conflict between permanence of design and a new model every year. He intends to bring out a new model every year, just as the rest of the industry.

New models at Studebaker will mean a refinement here, a new touch there, perhaps from time to time great changes under the hood. As long as it looks new, it will be a "status symbol."

- **"Business Investment"**—There's been a growth in the requirements an automobile has to fulfill, Churchill believes, as well as growth in customers. People are becoming more conscious of what he calls their "business investment" in their automobiles. All of this means to the Studebaker people that you keep your car small, keep it neat, keep it economical and—above all—keep its production cost low to keep prices down.

A few weeks ago, Churchill and his administrative group were discussing 1960 plans and he was told that they had approved a new interior color combination—increasing the choice from four to five. "There you go," he snapped quickly, "growing like Topsy."

That sort of objection doesn't come up in corporate affairs because diversification of products has been the aim of Studebaker-Packard since the corporation was organized in the summer of 1954. Auto profits are comfortable at the moment, but Churchill says the company's interest in diversification remains high. There's a constant flow of acquisition proposals across his desk. Studebaker's present financial condition is ideal for acquisitions, with a clean balance sheet, a strengthened stock price, and a huge tax-loss umbrella.

Part of the refinancing plan approved by the stockholders last October, authorized about 5-million new shares to be used to acquire new businesses. At the same time, A. M. Sonnabend, chairman and president of Botany Mills, Inc., was named chairman of a new acquisitions committee of the board of directors at $25,000 a year plus stock options exercisable only in proportion to whatever profits S-P gets from companies acquired.

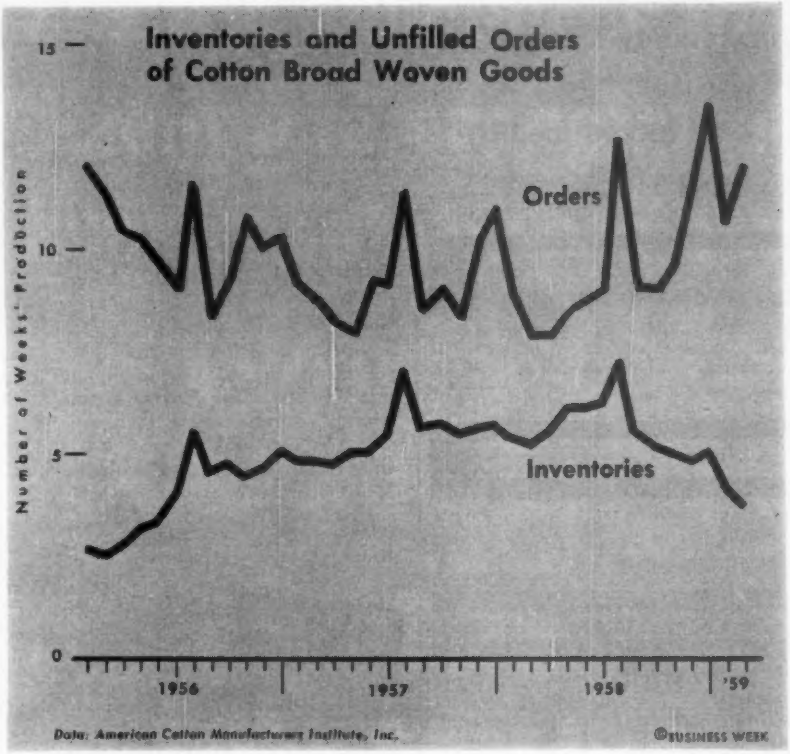
- **Plastics Maker**—Three weeks ago, the first company hunted up by Sonnabend came into Studebaker-Packard Corp. For $10-million, only $2-million paid down, S-P bought Gering Products, Inc., a New Jersey manufacturer of plastic compounds, polyethylene film, and plastic hose, with an annual volume of more than $20-million. The company will become a division of S-P and be operated by its former owners, who will have to earn the balance of the purchase price out of profits—a normal arrangement in Sonnabend-engineered acquisitions.

The really peculiar part of the Gering deal, and the best possible contrast to the Studebaker-Packard of a year ago is that the purchase was negotiated with cash—rather than stock. "You can always," say Porta, "get a better deal for cash."

But there's a hint that the bargaining value of cash wasn't the only consideration. Now that there's hope once again for a profitable future for Studebaker-Packard, some of the stockholders as well as the creditor-stockholders are having second thoughts about issuing 5-million new shares. There are 6.4-million shares outstanding now; conversion of the preferred in two years will add 5.5-million more. Any stock issued to purchase new businesses, some thinking now runs, would just be diluting the equity—a viewpoint that certainly would have gotten short shrift only a year ago, when it would have encountered the question, "What equity?" END

For Cotton: Orders, New Hopes

Industry counts on controlled output, modernization of plant, and research to keep it out of another two-year slump.



Stated simply, the chart on the right shows that orders are pouring into the nation's cotton textile mills, and inventories are dropping sharply.

For the industry, this means one thing. Stimulated by demand from apparel makers, industrial users—especially car and tire makers—and the general improvement in the economy, cotton textiles are well on their way out of a two-year slump. Practically every other industry yardstick—mill production, prices, profit margins—reflects this trend.

• **Confirmation**—Reports from individual companies bear out this optimism. Burlington Industries, Inc., increased its volume for six months ended last Mar. 31 to $378-million, up from $332.7-million for the same six months last year. First-quarter earnings this year rose to $5.9-million, from $2.2-million in the same period last year. Burlington's Chmn. Spencer Love says, "We presently have more orders booked for future delivery than we have had in some years," and he expects "continued earnings improvement throughout the final six months of our fiscal year."

J. P. Stevens & Co. echoes the improvement. Its three-month sales for the period ended Jan. 31 rose to $95.2-million, from $84.9-million in the same quarter last year.

Other mills report volume increases of from 5% to 15% above last year, and Textile World, a McGraw-Hill publication, estimates that over-all the industry will show an 8% improvement in sales this year.

• **Machinery Backlog**—The fortunes of a related industry, textile machinery makers—for whom last year was one of the worst—are rising, too. Draper Corp.'s Vice-Pres. William K. Child says that "Sales are much improved over last year but not booming." Saco-Lowell Shops reports that increased orders have built its textile machinery backlog up 66% over previous six months.

• **Two-Year Cycle**—Paradoxically, few textile men are really jubilant. They point out that percentage increases look good mainly because last year's performance was so poor. "We still have a long way to go," is the general feeling. And in an industry prone to boom-and-bust cycles that seem to last two years, executives wonder how long it will be before the bottom falls out again.

Dr. William H. Miernyk, staff director of the Senate commerce subcommittee that recently conducted a probe of textile industry problems, told the South Carolina Textile Manufacturers Assn. this month that the current upswing is part of the industry's historical cyclical movement. He predicted that the second half of next year will bring a downturn.

Such a forecast spotlights the problems that beset the industry. Factors such as fierce competition and an unstable price structure boil down to a basic trouble: Too much productive capacity that leads to overproduction in times of rising demand, with consequent excessive inventory accumulation all along the distribution pipeline. Added to this are other bugaboos such as declining consumption of cotton and government policies that the industry feels make it "the ugly duckling in the national barnyard."

• **First Aid**—To cope with these difficulties, the industry is counting on:

• Voluntary restraints on production and better management of inventories.

• New, modern machinery to give greater production efficiency, lower costs, and improved quality.

• Stepped-up research—both at production and marketing levels—to find new uses and new markets for cotton textiles.

• Continued efforts of groups such as the American Cotton Manufacturers Institute and the National Cotton Council to coordinate industry action—particularly in compiling facts and figures for research projects.

To understand why these lines of action are important to cotton textile people, take a quick look at the industry and what has been happening to it over the past few years.

I. The Industry

Cotton travels a long road between the farmer who grows it and the retailer who sells the finished article, say a cotton dress. In between are mills that take raw fibers, put them through such preliminary steps as carding, roving, and spinning, and finally weaving the yarn into cloth.

After the cloth is woven, various processors perform finishing operations like bleaching and dyeing the cloth, acting on orders of the "converter" who takes the risk of guessing what styles the market wants. The converter then sells to the apparel manufacturer who actually makes the final product. Some

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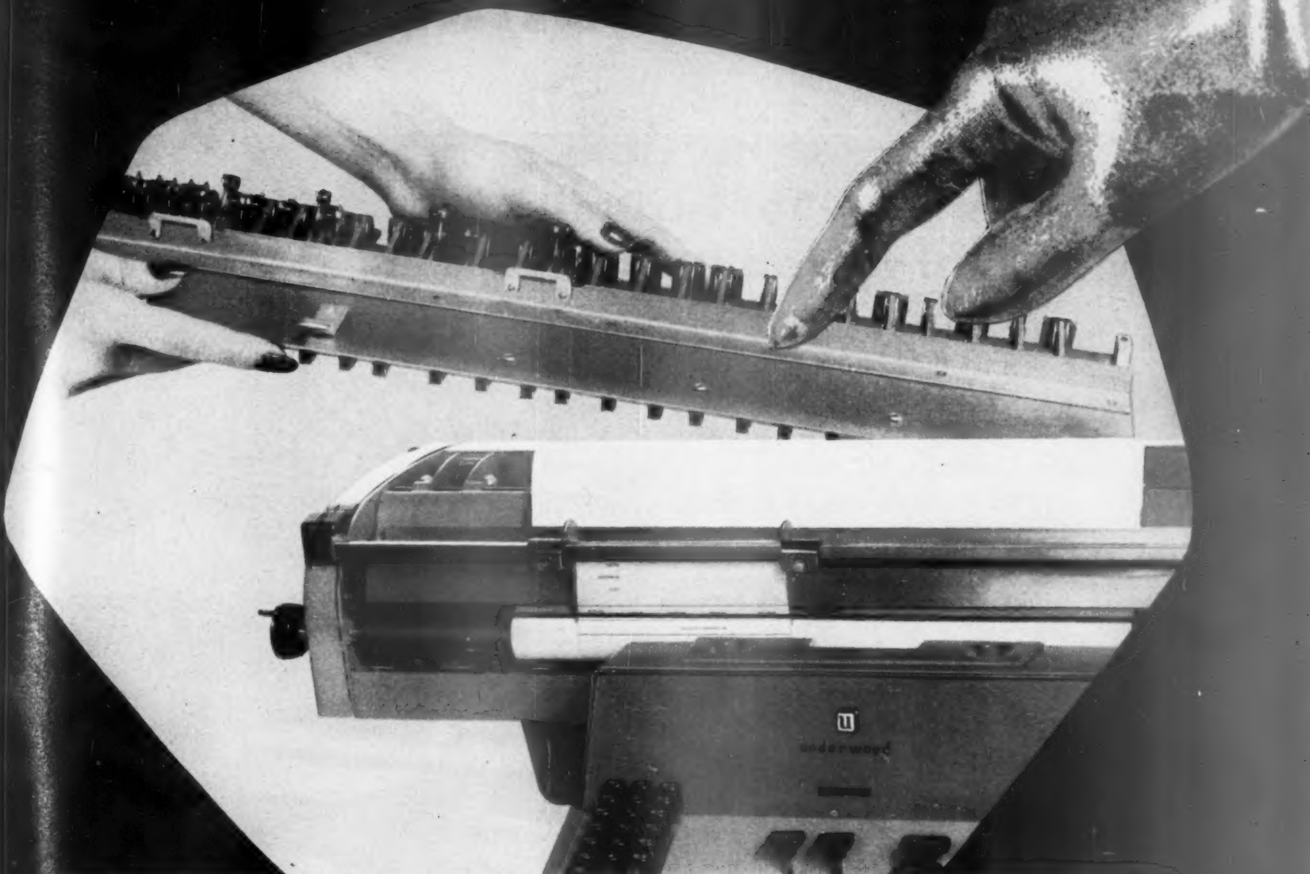

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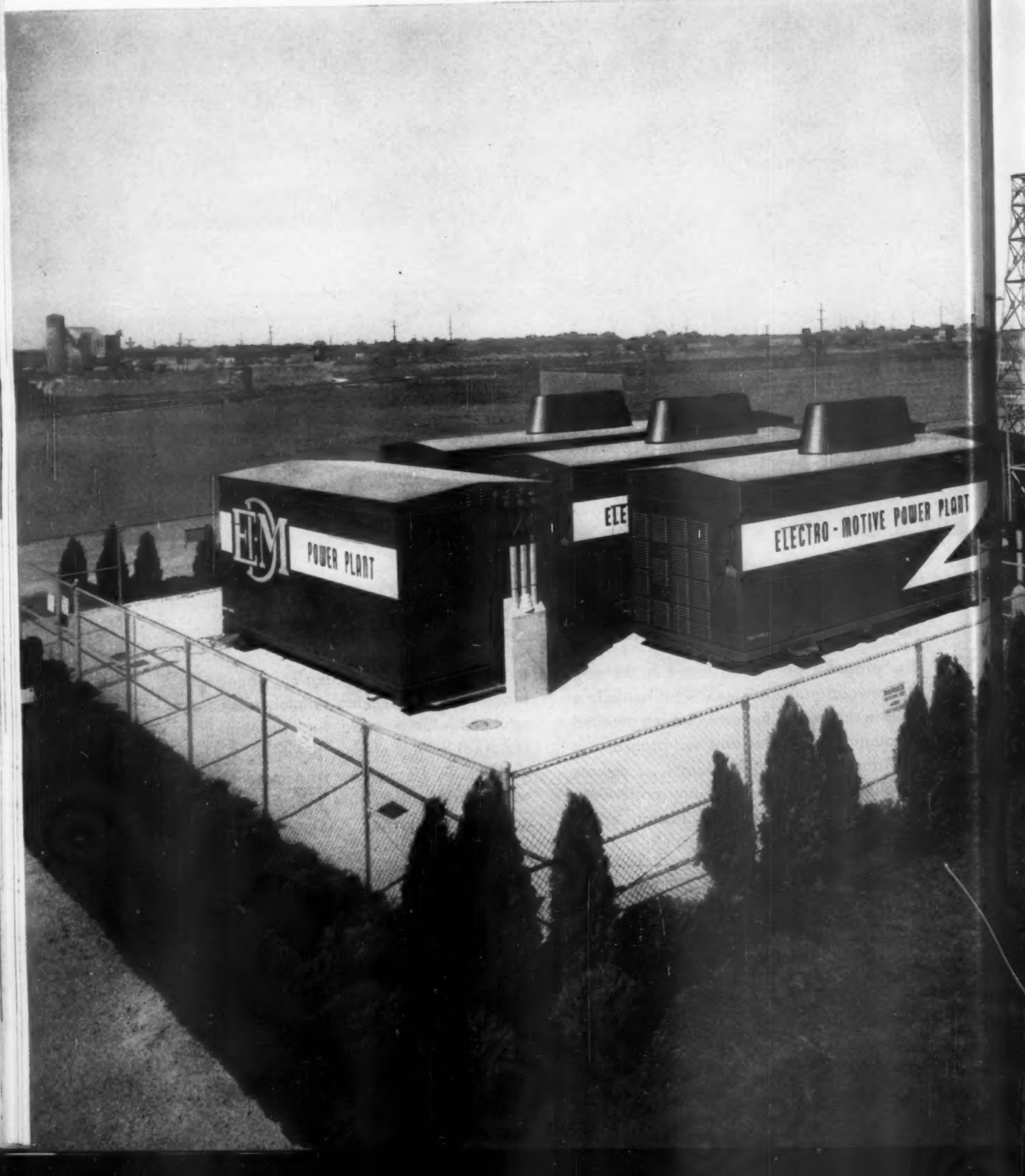

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mills perform all these operations for themselves, and some even sell directly to retail outlets.

Somewhat less than half of mill production goes into apparel, another 35% into household goods, and the rest into other consumer articles and a multitude of industrial uses—such as automobile upholstery and tires, hose, belting, tents and tarpaulins, rope and twine. Last year, mill production was worth about $3.5-billion.

• **No Pattern-Setters**—Unlike steel and some other industries, textiles include no giant companies that more or less set the industry pattern. There are about 8,000 mills turning out products. The top 25 include names like Burlington, J. P. Stevens, United Merchants & Manufacturers, M. Lowenstein & Sons, Inc., Textron, Inc., Cannon Mills Co., Cone Mills Corp., and Dan River Mills, Inc. These 25 companies account for about 30% of total sales, and no one company does more than about 4% of the total industry volume. Such a diversity of producing units has led to an unstable production situation.

• **Spiral**—The most recent industry cycle reflected in ACMI figures outlines what has been happening.

Increasing orders during the last half of 1955 stepped up production. In that year, the industry produced 10.1-billion linear yards of cotton broad woven goods, and added another 10.3-billion the following year.

Consumption couldn't keep up, and inventories mounted. In January, 1956, for example, the inventory index stood at 138. By August, 1957, it reached a high point of 263. One mill man sums up the effect of this inventory pressure on prices: "Last year, you could buy anything at any price."

Last July, production fell off to a low point, and the industry produced only 9-billion linear yards of goods—the lowest level since 1949. Meantime, with production cut back, inventories began dropping, and by last February the index was down to 169.

With orders again rising, production is moving up. That raises the question: When does the down-cycle begin again?

SHUTTLELESS LOOM designed by Draper Corp. has a lot of cotton men excited. The loom, which substitutes flexible steep tapes for the conventional wooden shuttle, offers mills a chance to step up efficiency and hold down costs.

II. Controls on Output

One way to attack the cycle problem, some industry leaders say, is for mills voluntarily to set limits on output. This generally means confining their operations to a five-day week, instead of working a three-shift Saturday. Some of the large mills have initiated this step, and smaller mills are following suit. J. M. Cheatham, president of Dundee Mills, Inc., says, "Right now we are making a particular item that is in short supply. We could run six days and get a premium price, but we are not doing it."

Many pressures work against any effective restraint on production. For one thing, the economics of mill operation tend to dictate running at full capacity to earn a profit. Fear of being charged with collusive restraint of trade makes millowners wary about pushing industry action too hard. And—perhaps most powerful—the competitive urge to take fullest advantage of rising demand makes the mills reluctant to pass up a chance when they see one.

Production comes from many mills—a lot of them operated by individualistic owners who see little virtue in concerted industry efforts. When any sizable segment of the industry fails to cooperate, others soon drop their self-imposed restraint. An executive of J. P. Stevens feels that too many owners will produce when demand warrants it, and let tomorrow take care of itself. "It's a way of life," he says.

Another industry official sums it up this way: "If the textile industry voluntarily restricts itself to five days a week when orders are enough for six days, I'll be very much surprised."

• **Lid on Inventories**—For many industry members, however, the key to a healthy situation is not cutting back on running time, but holding the lid on inventories. This approach is the most popular one. A. U. Priester, executive vice-president of Callaway Mills, sees no signs that millowners intend to hold their production down. He says, however, that Callaway will certainly not build up its inventories to the August, 1957, peak. "If other mills follow this practice, it will certainly help to avoid oversupply. And the industry as a whole is now more conscious of how costly inventories have been," he adds.

A study presented by A. J. Bows and Dr. D. B. Herts of Arthur Anderson & Co. before the ACMI annual convention last March points up this cost. The study related inventories to profits. It shows that the textile industry's percentage of profit to sales (2.8%), its return on investment (6.5%) and its annual inventory turnover (four times) are considerably below those of other

important industries. The report traces the simple relationship of prices to inventories, and concludes that "the maximum profit comes with a minimum of inventory."

III. Why Modernize

As part of the running battle with rising costs, far-sighted mills are looking hopefully at the new machinery that is appearing on the market.

The textile industry has been slow to modernize. Slim profit margins permit only limited investment in new equipment, and an authoritative estimate indicates that mills are modernizing at a rate slightly above annual depreciation rates. The industry expects to spend $390-million on new plant and equipment this year. This is considerably below 1948's record $618-million, but still a healthy 35% increase over what it spent last year.

• **More Versatile**—As far as basic processes are concerned, the industry is still turning out cloth in the same way it has for years. But new equipment is working far-reaching changes in the industry. One of the most significant examples is the shuttleless loom, made by Draper Corp. (BW—Jan.10'59,p122). There already are at least 300 of these looms operating in the larger mills.

Morris Bryan, Jr., president of medium-sized Jefferson Mills, Inc., is sold on the shuttleless loom, especially if it is installed as part of an over-all modernization program. Bryan, like other owners, won't reveal any specific cost savings, but says, "The loom increases productivity per man-hour and decreases tremendously the cost of maintenance." Also, the loom reduces the noise level about 30%, and—together with air conditioning, lint control devices, and automatic oiling machines—makes the mill room a pleasanter and more productive place to work. Finally, Bryan feels the loom produces a superior quality cloth.

Bryan believes that such new equipment gives the industry a real opportunity to do something about the overproduction problem. "If we use this equipment for expanding production," he says, "we get back into the problem of overproduction. But if the emphasis is on reducing costs, then I'm really optimistic."

Finally, Bryan—like other small progressive mill owners, has another basic reason for modernizing his plant. He points out that, as modern equipment reduces operating costs, pressure on smaller or marginal mills is increased, and the trend to industry consolidation is stepped up. The only way the small mill can compete, he argues, is to stay abreast of the latest equipment.

Industry consolidation is already happening. Since the end of World War II, at least 150 mills have gone out of business. Yet even with this reduced capacity, new equipment has kept production at about the same level. Some industry members believe that fewer larger producing units is the solution to overproduction.

IV. Increasing Consumption

Some cotton textile people say that the problem of the industry isn't overproduction, but underconsumption.

Certainly, the consumption picture is not bright. Mill per capita consumption of cotton fibers last year was 22.2 lb.—down from 32.4 lb. in 1947. As a percentage of total fiber consumption, cotton accounted for 65.5% last year, against 72.7% in 1947.

To some extent, of course, it has been displaced by rayon and acetates and other synthetics, which have grown from 16.2% of all fibers consumed in 1947 to 28.6% last year. Yet all fibers have dropped, from 6.4-billion lb. in 1947 to 5.9-billion lb. last year. Dr. William H. Miernyk says, "One of the significant economic phenomena of the past decade has been the long-term decline in textiles during the period of rapid economic growth." But Miernyk predicts that over the long haul "the expansionist forces will outweigh those which lead to contraction."

• **Profits From Research**—To try to lift consumption, the industry is leaning heavily on research—at both laboratory and market levels. Results are already apparent in various cotton and synthetic blends and resin-treated cotton. Deering, Milliken & Co., which last December opened a $2-million research center at Spartanburg, S. C., has a new technique—called the Belfast process—that actually alters the molecular structure of cotton fiber to make it crease resistant.

In addition to technical research, many companies are going after the consumer in a more aggressive fashion. Dan River Mills and Lowenstein, for example, are successfully advertising fabrics aimed at the home-sewing market.

V. Government Action

Currently, much industry energy is being directed at obtaining relief from Washington from policies that the industry believes are injurious. High on the list is "the two-price cotton system," whereby foreign buyers get cotton at a 6¢ per lb. advantage over domestic mills. This subsidy may go up to 8¢ in August.

The mills feel so strongly about this, that J. Craig Smith, president of Avondale Mills, declares. "If it were a known fact that our industry would continue at this disadvantage in respect to our raw material over a long period of years, the industry right now would be leaving this country like rats off a sinking ship."

• **Import Problems**—Some of the cotton that goes abroad returns to the U.S. as finished goods that sell at lower prices than the domestic product brings. The imports are further increased by the United States' program of helping foreign countries develop textile industries of their own. Finished products come from India, Japan, and most recently Hongkong.

Pointing out that the industry isn't opposed to imports, Dundee's J. M. Cheatham says the imports are generally concentrated on a few items on which the labor costs are highest—ginghams and velveteen, for example. The market for these goods is small, and mills making them here can't compete with the imports. So they turn their machines to other goods, consequently extending competition throughout the industry.

The industry wants the government to end the subsidy and set up a quota system limiting imports by categories of goods—such as the one the Japanese industry accepted voluntarily.

Finally, the industry is seeking a better tax schedule to permit faster depreciation of equipment. That, leaders feel, will permit a more rapid modernization of the industry. END

New Gaslight Era

Nostalgia for a 19th Century fixture is forcing its way through the blaze of modern lighting that floods city streets and suburban developments. At American Lantern & Mfg. Co. (above), women workers turn out gas lamps to be used as decorative outdoor lights or to illuminate areas where street lights have not yet been installed. Only the gaslighter is missing. The replicas have timers that turn them on automatically.

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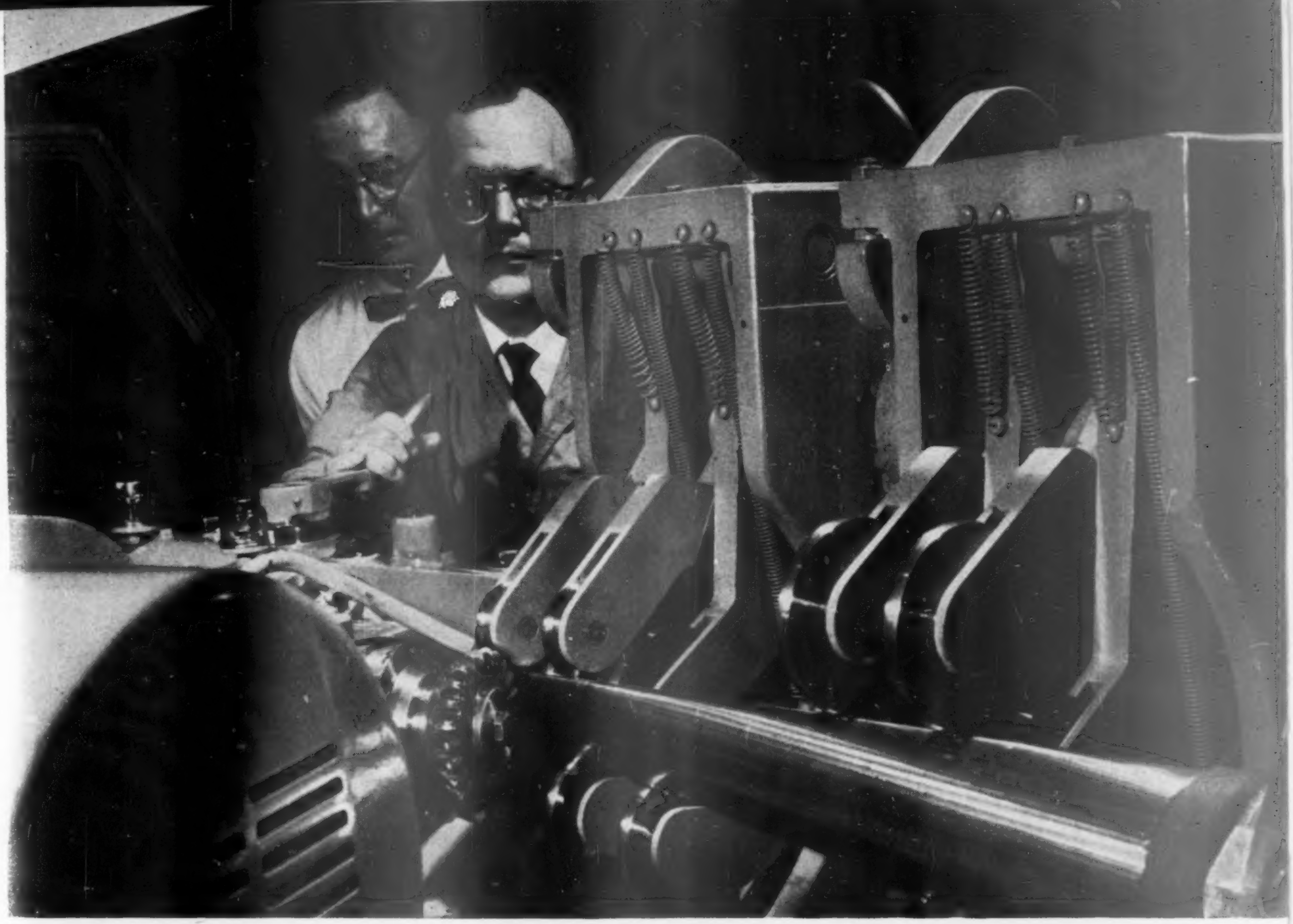


MACHINE WITH A BRAIN of magnetic tape automatically shapes the complicated contours of a bucket for a large steam turbine at GE.

Tools With Special Talents

GE's new tape-controlled contour milling machine (picture) is typical of the new needs of custom job shops.

The tool in the picture above is getting particular attention at General Electric Co.'s huge turbine-generator plant at Schenectady, N. Y. Among some 1,300 major machine tools that chomp away at expensive metal for two shifts per day, this special tool is unique—it's the first tape-controlled contour milling machine to go to work outside the aircraft industry.

It won't be one of a kind for very long. It is only the first of four identical milling machines that Ex-Cell-O Corp. of Detroit is delivering to GE. These machines have one purpose: to produce buckets for steam turbine rotors, and to do it faster and better.

• Changed Role—GE's new machines differ from those used in the aircraft industry. They are designed to machine stainless steel, while most tools in the aircraft business work on aluminum. Moreover, they must be more versatile to fit GE's needs.

"We're basically a job shop," says W. E. Saupe, general manager of LST-G (GE's shorthand for Large Steam Turbine-Generator) plant. "We used to buy general purpose tools, because we don't make a repetitive product—almost all our jobs are different. Now we have almost completely changed from a purchaser of general purpose tools to a purchaser of special equipment."

"I think it is only recently," says Saupe, "that some machine tool builders have realized that job shops—not just GE, but all over—have changed from general-type tooling to specialized tooling."

• The Difference—There's still quite a difference, however, between the type of specialized tooling used by GE—which might better be called specialized general purpose tooling—and that used on, say, an auto or appliance production line making millions of identical parts.

On the mass production line, you can justify a special tool for a single operation such as drilling a hole, another machine for reaming the hole, and so on. In a custom job shop, each machine may have to perform several different operations, under the direction of a skilled machinist.

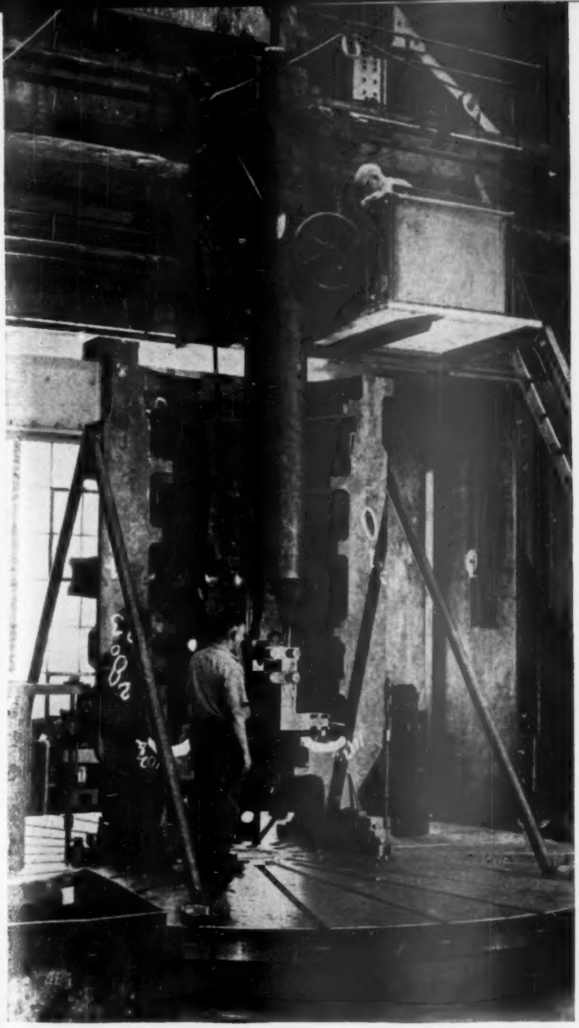
GE's steam turbine shop is a cross between the two. Its turbines are built to order; even the parts that must be made by the thousands (more than 5,000 buckets like the one in the picture) go into a typical large turbine, differ in design and dimensions from one job to the next.

In a situation like this, tape control gives GE the speed it wants in the milling process, allows the tools to do various kinds of work.

According to R. G. De Biase, who developed the computer program for the tape control, the first automatic milling machine at Schenectady has shortened lead time on turbine bucket production from months to a couple of days.

• Keeping Tooled Up—Kuyper and other manufacturing executives at the GE plant spend a good part of their time worrying about keeping the shops "optimally tooled."

Power plants continue to get bigger. In the last 10 years, the average size of turbine-generators made by GE has increased from 38,000 kw. to 147,000 kw., and some units go as high as 500,-



OLD-STYLE boring rotated the work piece—and the operator—while the tool remained stationary. Cutting speed is limited.

NEW-STYLE boring and surfacing machine spins tool at higher speed. Operator watches closed-circuit TV of operation.

000 kw. The Tools must get larger, too, and must be capable of working tougher metals to ever closer tolerances.

Even with the time lag in developing and building new tools, Saupe's department has been taking delivery of some spectacular machinery in the past couple of years, everything from monsters several stories high and capable of carving of 100-ton turbine casings down to machines a casual visitor might never notice, such as little automatic tool sharpeners singing along in the shadows of the big lathes, millers, and drills.

• **Turning the Tables**—Where the added cost of a magnetic tape control won't pay off, the new machines have other new features instead.

One such machine is the vertical boring mill (above, right), four stories high, built by Morton Mfg. Co. of Muskegon Heights, Mich. Installed, it cost about $1-million, but it can do three or four times the work of a rotating-table machine of the older style (above, left).

The conventional machine rotates the work piece on a heavy table which the operator rides while the tool remains stationary; the new vertical mill spins the tool instead of the work, and does it at far higher speed.

Holes punched in paper tape control a huge drilling machine that positions 90-ton generator rotors and drills thousands of ventilating holes in them—up to 2,700 in an average rotor. The machine, made by Baker Brothers, Inc., of Toledo, can drill five holes simultaneously, then spin its four-faced turret and ream or mill the holes if necessary before automatically going on to the next set.

• **Magnetic Tape**—For sophisticated tooling, the Ex-Cell-O contouring millers are in a class by themselves at Schenectady. The first machine is already turning out big turbine buckets, shaped like halves of an airplane propeller blade, at the rate of one every two hours or so. A reel of magnetic tape runs the operation.

GE put in several years of design work and more than 2½ man-years to work up a computer technique to prepare taped instructions for three-dimensional shapes. When the engineering department designs the bucket, it gives a draftsman 4 to 10 typical cross-sections; the measurements he makes are transcribed on cards that are fed to an IBM 704 computer. In half an hour, the 704 produces a master tape describing the exact shape of the bucket, a recording that involves about 1-million computer words.

This master tape then goes to a machine tool director, a simplified special computer that changes this digital language of the tape to steady signals, which it records on magnetic tape. The tape can be run again and again on the Ex-Cell-O millers, producing a turbine bucket each time.

"It makes blades we would never have attempted to make before—bigger ones and more efficient airfoils," says a design engineer.

"And utilities perk up their ears," adds Saupe, "when you mention efficiency increases of as little as one-tenth of 1%."

Thanks to this special purpose tool, GE hopes it may soon be able to talk in terms of much better efficiency gains than that. And a couple of 500,000-kw. power plant orders should more than offset the cost of a couple of the new milling machines. END

Spain's Bid to Rejoin the World

FRANCO has tentatively O.K.'d economic overhaul aimed at ending long isolation.

This week the government of Spain is putting the finishing touches on a sweeping program of economic reform—one that would check inflation, liberalize trade, and stabilize the value of the peseta. The program is intended to tie the Spanish economy closely to the rest of Western Europe and end the 20 years of political and economic isolation that Spain has experienced since the Civil War.

Gen. Francisco Franco (picture) has approved the upcoming reform in principle. Detailed proposals, most of them worked out with the help of the International Monetary Fund, are to be ready early in July. Then it will be up to Franco to decide whether he really is prepared to face the domestic political consequences of the program. It would seriously undercut the corporate state system, with its powerful vested interests, that his regime has built up.

• **In Memoriam**—Right now, Washington is betting that Franco will accept the challenge. He is reported to feel that, as a final monument to his regime, he would like to put the Spanish economy on a competitive footing and to make the Spanish people a part of the mainstream of international life.

Two of Franco's top officials, Commerce Minister Ullastres and Finance Minister Rubio, are solidly behind the reform program. In fact, they have been its main sponsors. Now they seem to be gaining the grudging support of other key officials.

• **Details**—These are the main elements of the proposed reform:

Financial stabilization. This would involve big cuts in public investment and in state subsidies to the semi-automonous government agencies that now run most of the Spanish economy.

These agencies would be required to sell some of their holdings to private interests. At the same time, bank credit would be tightened.

Exchange reform. The system of multiple rates (there were six official rates last week) would be simplified and then consolidated into one rate. Devaluation below the most used import and export rates almost certainly would be involved. The new single rate might be about 60 pesetas to the dollar; today the principal export rate is 42 to the dollar.

Trade liberalization. Spain's numerous restrictive import quotas would be cut away rapidly, exposing the economy to outside competition.

Private investment. A new law to encourage foreign private investment is in the works. This follows the pattern of last year's petroleum law, which already has lured several additional foreign oil companies into the hunt for oil in Spain.

International organizations. Spain would join the Organization for European Economic Cooperation (OEEC) and later the General Agreement on Tariffs & Trade (GATT). There is some talk of later joining the European Common Market.

• **Foreign Aid**—Outside financial help will be needed if this program is to succeed. It is estimated that Spain will need several hundred million dollars to cover its present payments deficit and to provide a reserve to back up the new rate of the peseta. But the IMF, the U.S. government, and several Western European governments stand ready to provide the necessary help.

If the program gets under way, private Spanish capital—which has been seeking refuge in Switzerland—could be expected to return. Some new foreign private investment funds probably would move to Spain, too. Once the Spaniards have proved that they are serious about stabilizing their economy, the World Bank will start considering long-term development loans.

• **Overdue Reforms**—Drastic economic reform is long overdue in Spain. Some observers believe that now may be the last good opportunity to push it through before the country is shaken by a struggle for succession to Franco.

The Spanish economy has been floundering for several years under the inflationary impact of rapid industrialization, largely carried out by state industrial enterprises. Even the receipt of half a billion dollars from the U.S. government in aid and military expenditures has failed to cover Spain's external deficit, which reached a total of \$440-million over the three years 1955-57. Madrid's exchange reserves have dropped from \$161-million in 1955 to around \$80-million today.

At the same time, inflation has taken its toll. Wholesale price indexes have jumped 50% in the past few years—and they do not fully reflect real price increases. Wages now are lagging behind these increases.

• **Going Industrial**—Spain's economic troubles, of course, go back to the Civil War and even before. But recently they have been growth troubles—an encouraging sign in itself.

Industrial expansion has been impressive in recent years. Industrial output rose an average of 10% per year between 1950 and 1958. The big increases have taken place in power generation (both hydro and thermal), metallurgy, and in the chemical and engineering industries.

• **Too Much, Too Soon**—But the sheer speed of the industrial upsurge has tended to unbalance the economy. Per-capita agricultural production still is only at prewar levels. Some of the new industries—particularly those controlled by state agencies—are inefficient and non-competitive. The net result has been serious neglect of agriculture and mining, the mainstays of the economy and the main source of exports.

• **Multiple Agencies**—Spain is probably the purest example of the corporate state outside the Soviet bloc and Yugoslavia. Some 820 overlapping specialized economic agencies of the government control the main levers of the economy. Drawing on government subsidiaries for more than half their capital, they have bought into almost every cranny of the economy. Last year, the government poured 36.4-billion pesetas into these enterprises—up to \$1-billion, depending on the exchange rate you use.

Many of these enterprises are run by the National Institute of Industry (INI). Among INI's most important operations are the new Aviles steel plant in northwest Spain (when completed, it's slated to have a capacity of 1.4-million tons), the SEAT auto works in Barcelona, an aircraft factory in Seville, and a big aluminum plant in Valladalid. END

DOW | **Industry's chemicals:**

WHAT'S MAKING NEWS:

The race is not always to the swift . . . but that's the safest way to bet. In industry's stepped-up race today, it's the speed with which knowledge is absorbed that often spells sales success to the alert manufacturer or processor. Having the latest facts about new chemical products—and new uses for old ones—can be a major factor in determining a firm's course of action. This series aims to provide as many of those facts as possible, quickly and concisely.

You may wish to check certain items in this advertisement and forward to those concerned in your company.

ROUTE TO:

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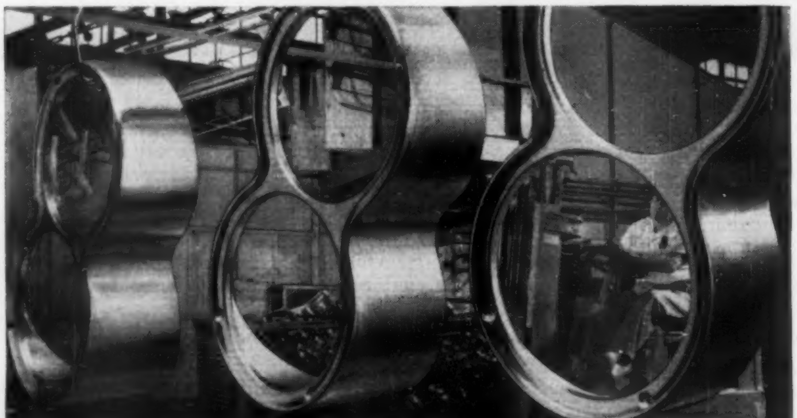
Manufacturers clean up with improved industrial solvents

Cleanliness has been extolled by philosophers through the ages . . . but the ancients had no conception of the importance which it would have in a modern metalworking plant. In an auto plant, for example, literally *thousands* of metal parts must be cleaned, thoroughly and rapidly, for every car that comes off the line. Fortunately, modern industrial solvents do the job with amazing efficiency.

Industrial metal cleaning must be meticulously *thorough* to provide a perfect surface for finishes. It must be *rapid* to keep up with today's fast-moving assembly lines. Modern technological progress has made the development of more efficient, fast-acting cleaning solvents imperative. Meeting the challenge are Chlorothene®, trichloroethylene, perchloroethylene and methylene chloride—products of creative solvent chemistry at Dow.

These Dow solvents with the jaw-breaking names have helped accelerate the production process in factories across the country. Sold through Dow solvents distributors and used in cold and hot cleaning applications, they constitute America's broadest line of industrial solvents.



Modern metalworking operations call for rapid and thorough cleaning of thousands of small parts. Dow industrial solvents do the job right—maximum efficiency, minimum cost.

Chlorothene, an exclusive Dow product, is a superior cold cleaning solvent for almost any metal cleaning operation. It is distinguished by its low vapor toxicity. Chlorothene has no flash or fire point, reduces plant fire hazard to a minimum.

Or take trichloroethylene, another chlorinated solvent from Dow. It's very effective against oils, greases, waxes and tars. It will not attack steel, copper, brass or other metals. Its use as a vapor degreasing solvent results in a substantial economy in heat requirement since it boils with only one-sixth the heat required to vaporize water. Long experience indicates low flammability and nonexplosive characteristics at ordinary working temperatures. It has a vapor density approximately four and a half times that of air; and its low boiling point (189°F.) facilitates handling of material after degreasing.

Another Dow solvent, perchloroethylene, has a high boiling point (250°F.) which makes it ideal for cleaning pieces which are porous or have deeply recessed parts or blind holes. The high temperature also ensures complete drying, of special importance to the metal plating industry.

Whatever the cleaning operation re-

quired, Dow has a solvent to do the job right. Metal parts cleaned with these solvents make the hound's tooth simile obsolete.

BROMINE

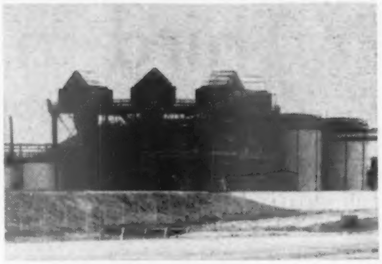
Veteran chemical still very much in style

Bromine has been around a long time (it was Dow's first product, back in 1897) but it has never gone out of style. Dow marketed 14 brominated products in 1899, has 110 today.

A hard working, highly adaptable chemical, bromine has plenty of pluses: fire-retardant properties, germicidal value, high specific gravity and, not least, Dow provides a plentiful source of supply.

An outstanding swimming pool purifier (no smell, no smart!), it is also the backbone of many pharmaceutical products and plays an important part in most of the new synthetic lubricants and soap germicides.

Bromine is used in a hundred other ways, too. Zinc bromide, for example, is as effective as concrete in shielding scientists from lethal gamma rays, yet transmits light without distortion, thus makes a perfect "atomic window". In photography, it has played vital roles in everything from snapshots to wide screen movies, photoengraving and X-ray. It controls algae and slime, attacks automobile engine deposits.



Bromine, oldest Dow product, has a hundred vital uses in every field from photography to atomic research.

Truly, bromine is not only a veteran but also a mature pro with the zip of a rookie. Dow is the best source for both bromine and valuable advice on how to use it.

DOWTHERM

Where there's heat, there's no fire

Heat is basic in the modern industrial process. Many manufacturing and processing firms simply could not exist without it. But heat has always meant danger—direct fire is difficult to control, steam generates too much pressure at high temperature. Now, Dowtherm® A has taken the hazard out of high heat.

Used by food processors, oil companies, chemical firms and countless others, Dowtherm A provides heat which can be pinpoint-controlled to within a fraction of a degree. It's the most efficient heat transfer medium between 350°F. and 750°F. (Steams build 3,000 lbs. pressure at 700°F., Dowtherm a mere 110 lbs. at the same temperature!)

It's economical, too. New equipment is usually needed but one paint and varnish manufacturer reports his equipment will pay for itself in five years in savings on fire insurance premiums alone. A food processor says he'll do it in three, just on fuel savings.

When things get hot, Dowtherm offers a better end product with efficiency, accuracy and increased *safety.*

★ ★ ★ ★

If you would like to know more about any of the chemicals mentioned here (or any other Dow chemicals), write to THE DOW CHEMICAL COMPANY, Midland, Michigan, Chemicals Merchandising Department 604AF6-20.

GERMANY Third in Exports and

While the Big Four foreign ministers haggled this week over the Berlin crisis and German reunification, West Germany's industrialists pushed their worldwide drive to sell capital goods.

Back on its feet, after the devastation of World War II, German industry (pictures) is racing to beat Britain in export markets. Britain is second only to the U. S. in exports. Now Germany, with the "economic miracle" of industrial recovery behind it, may well accomplish an "export miracle" by outdistancing Britain's export volume during the coming year (chart, page 160).

• **Success to Date**—Since 1950, a year after the creation of the Federal Republic, German exports have soared from $2-billion to last year's $8.8-billion. In sharp contrast to France, Germany has held imports in check and built sizable trade surpluses—$1.4-billion during last year alone. The country today can boast a 9.2% share of world export markets, close to its prewar share.

Like Britain, Germany has made the U. S. a prime export target. Largely pioneered by the remarkably successful Volkswagen, German sales here have jumped from $298-million in 1953 to $643-million last year. In Canada, a Commonwealth market, sales also have risen fast, from $30-million five years ago to $104-million.

• **Markets Everywhere**—Germany, in fact, is moving into any markets it can find. In the Middle East, where French and British political influence has declined, Germany's heavy-equipment makers are cashing in. In both Communist and non-Communist countries that are hurrying to industrialize, businessmen from Duesseldorf, Stuttgart, and Frankfurt are negotiating orders.

Red China, which bought a piddling $2.8-million from Germany in 1952, spent $162-million last year on German goods. India is depending on a German consortium for a $425-million, government-sponsored steel mill at Rourkela

STEEL production in the Ruhr is the heart of Germany's effort to sell heavy equipment throughout the world. Capital goods made up large share of last year's $8.8-billion worth of exports.

AUTOS like these 900 Volkswagens en route to the U. S. are, with trucks, Germany's third-ranking export earner. VW's have spearheaded Germany's export drive in U. S. and Latin America.

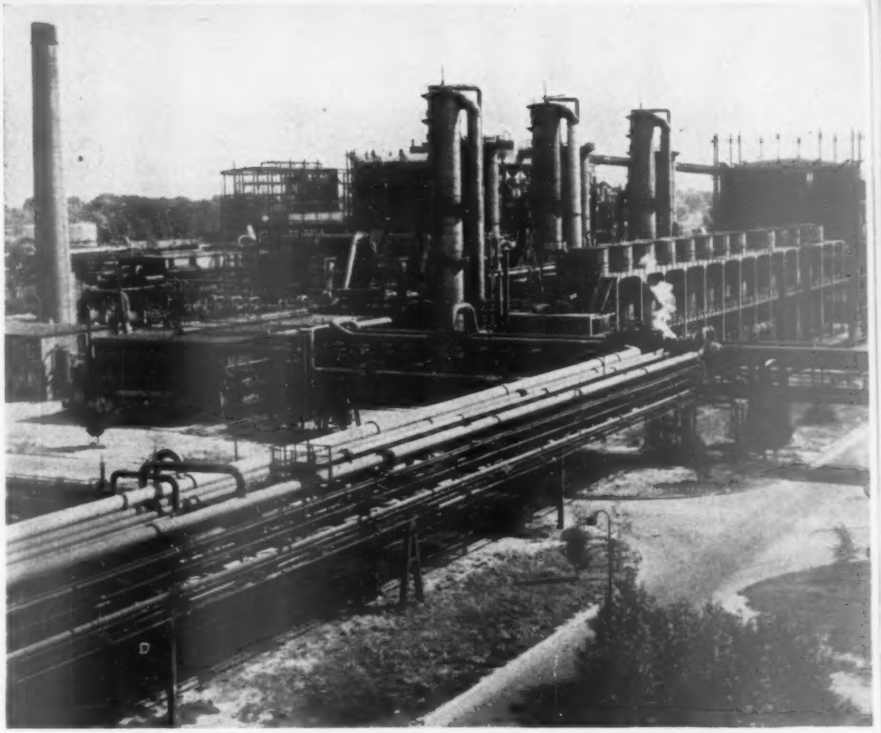
Rising Fast

(page 32). Since 1953, the Soviet bloc has boosted its purchases in Germany from $160-million to $474-million.

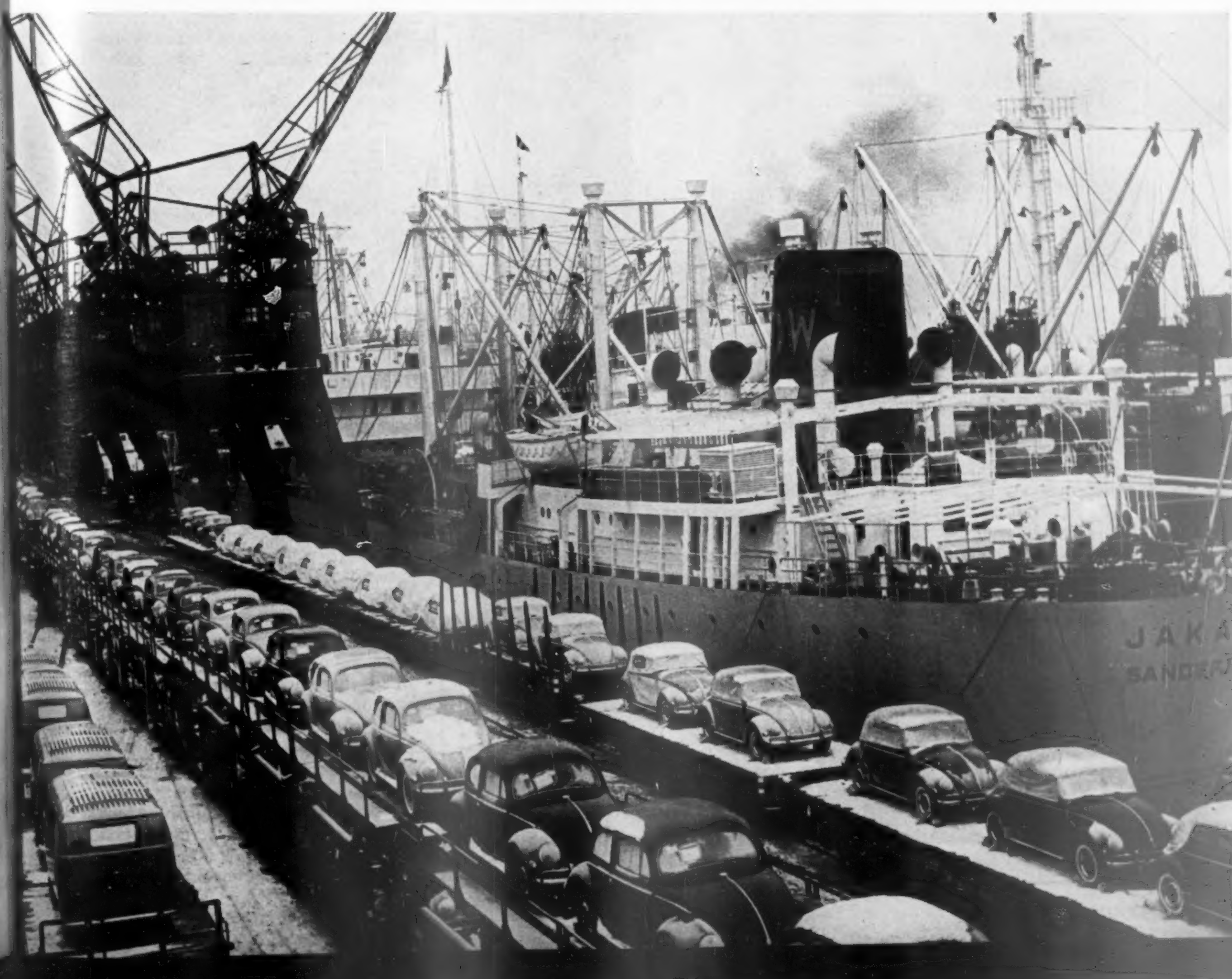
• **Greater Fringes**—Germany still does about 27% of its trade with other Common Market countries, but it regards the new six-nation grouping also as a base for greater gains in distant markets. This view reflects the thinking of Economics Minister Ludwig Erhard, who has pushed postwar industrial recovery and championed free trade.

Against Chancellor Konrad Adenauer's wishes (BW–Jun.13'59,p26), Erhard favors the British scheme for a Free Trade Area. Ultimately, he has said in private, he would like full free trade round the globe within GATT (General Agreement on Tariffs & Trade).

In competing for foreign markets, Germany starts from a position of economic strength based on heavy investment in new industrial plant. It has already passed Britain in steel output, auto production and shipbuilding. It



CHEMICALS are West Germany's second-ranking export, topped in value only by machinery. Such successors to prewar I. G. Farben as Bayer, Hoechst, and BASF are pushing sales from India to Argentina by building and buying overseas chemical plants.



is challenging Britain in electric power (though lagging in development of nuclear energy). In chemical and electronics growth, it is about on a par with Britain.

• **Importance of Exports**—Exports, of course, were important to the prewar Third Reich. They are even more important to the smaller West Germany of today. Like Britain, it has to build its economy around importing raw materials and exporting finished manufactured goods.

Even in 1948, just after the Erhard-created currency reform, Germany began expanding slowly into foreign markets. It needed to earn foreign exchange to buy raw materials and equipment.

Despite a growing trade surplus, it has continued to push overseas sales. That's mostly because of the limits of Germany's domestic market. For all of workers' present purchasing power, it is not enough to absorb fast-rising production of German industry.

• **World Banking**—To sell its goods abroad, Germany has gradually become an international banker—though it is no rival to London as a money market and financial center. Late last year, private investors snapped up a $12.5-million bond issue floated by the Anglo-American Corp. of South Africa.

In April, a syndicate of 70 banks picked up a $47-million bond issue from the World Bank. Even smaller investors have taken an interest in stocks. They have put earnings into mutual funds and into "people's shares"—Bonn's program for selling government-owned plants and spreading stock ownership.

• **Foreign Investment**—More important for earning money abroad, German companies have been investing overseas on a large scale. Direct private investment abroad since 1952 now has reached $550-million.

Significantly, a recent United Nations report shows Germany was the only capital-exporting country that increased its annual foreign investments during last year's recession. Partly because of this, gold and foreign exchange reserves—a record $6.2-billion last December—have dropped $900-million in the first four months of this year. British observers, long critical of Germany's enormous reserves, now say Bonn is beginning to act like a "good creditor."

To see why German industry has been so successful in selling abroad, look at several key areas:

In Latin America, Germany has focused on Brazil as a potentially rich market. Since 1952, it has invested about $110-million there. In fact, Brazil leads all other countries as a place for German investments. (Canada ranks second.)

The largest amount of German money has gone into the automotive and chemical industries. Mercedes-Benz, DKW, and Volkswagen operate Brazilian plants. In contrast, Britain has no auto plants in Brazil.

As Sao Paulo businessmen see it, Germany has a distinct edge over either France or Britain in selling to Brazil. German companies tend to provide better service and grant more liberal payment terms than other foreign competitors. Taking advantage of a large bilingual population of German descent, German companies readily put Brazilians in key jobs.

In selling, the Germans go to any length to get an order. They supply promotional literature in good Portuguese, while most other foreign competitors print only in Spanish for Latin American sales. The Germans also seem more willing than competitors to build equipment exactly to customers' specifications.

They generally reinvest most of their profits, happily form partnerships with Brazilians (even when not holding majority control).

Mexico is another flourishing market for German goods. Germany is now Mexico's No. 2 foreign supplier, after the U.S. German exports there have

Businessmen Who Set a Fast Pace For West Germany's Postwar Recovery

More than Britain or France, West Germany has relied on resourceful, determined businessmen for its economic comeback.

Its top industrialists (including former Nazi sympathizers) support the Adenauer government, dominate the business community in such cities as Hamburg and Duesseldorf, and—by their own energy and widespread travels—serve as emissaries to foreign markets.

Capital equipment, Germany's largest export earner, is the mainspring of the Ruhr empire run by 51-year-old Alfried Krupp. He puts his weight behind ambitious heavy-industry and construction projects that stretch from Latin America and Canada to the underdeveloped countries of Africa and Asia. Partly through his much-publicized "Point 4½ Program," Germany sold $1.1-billion worth of goods to the Middle East and Asia last year. Though ordered to "decartelize," Krupp has been expanding his holdings in Germany.

Boy wonder to German businessmen is 45-year-old Willy Schlieker. During Korea, he traded scarce steel plate to Americans in exchange for U.S. coal and precious dollars. Owner of one of the world's largest shipyards, located in Hamburg, Schlieker recently completed the first iron-ore carrier of an eight-vessel fleet built for American interests.

Unknown just after the war, Max Grundig is a big man in German electronics today. In 1947, he started a radio workshop in a converted barracks, with only 70 workers. He now grosses $100-million yearly, 40% of it from exports to the U.S. and other foreign markets.

Another man to ride the postwar boom is Rudolf Oetker. Known in Germany as "the pudding prince," 42-year-old Oetker has used his baking-powder fortune to expand into breweries, liquor, films, insurance, and banking.

Straight managerial talent is behind the success of Heinz Nordhoff, director-general of profitable Volkswagen. At war's end, he tried for a top post at GM's Opel, failed, then shifted to government-run Volkswagen at Wolfsburg. Nordhoff has fought any basic changes in the prewar-designed VW, this year is shooting for production of 700,000 units—with help of new truck plant at Hanover.

CREATING A NEW WORLD WITH ELECTRONICS... NO. 12

HOW TO HEAR A

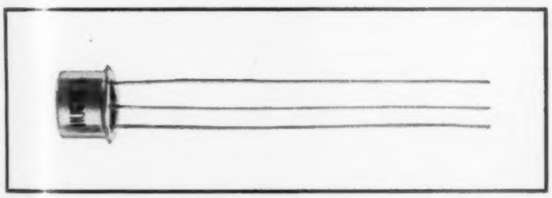
A FLOWER BLOOM

When you stop to think of it—flowers do make sounds as they blossom. They may be audible only to the other flowers, but with enough amplification you could hear them, too.

Modern electronics depends on amplification... turning tiny signals into larger ones...to run radios, TV sets, computers and thousands of other devices.

More and more, the job of electronic amplification is being assigned to the tiny, rugged transistor. Actually, the transistor is an electronic valve. The signal to be amplified is used to control power in the same way that a mere twist of the valve controls a powerful stream of water in your garden hose.

Hughes is dedicated to making the world's most



A Hughes transistor...actual size

reliable transistors. To achieve this goal, Hughes has invested several million dollars in an ultra-modern semiconductor plant. Here, the achievements of the Hughes laboratories, with their thousands of scientists, are being translated into the most advanced and reliable types of electronic "hardware."

Hughes is also a leader in the development and manufacture of diodes, rectifiers and other solid-state devices. In addition, Hughes makes TV-like storage tubes that "remember" pictures, words and numbers...precision crystal filters ...special purpose instruments...microwave tubes ...thermal relays...and complete industrial control systems. With an eye for the needs of tomorrow, Hughes is now developing new "molecular electronics" devices to meet the ever-changing needs of our society.

All Hughes products are known for high levels of reliability. No wonder. Behind them is the expe-

This Hughes engineer, shown growing a silicon crystal, is part of the team of engineers and scientists who are continually probing the frontiers of advanced electronics.

rience of 5,000 Hughes engineers and scientists in the research, development and manufacture of advanced electronic equipment. This know-how can help you, too. We will welcome the opportunity to show you how our experience can improve your product or make your new idea into a profitable reality.

HUGHES PRODUCTS
Semiconductor Division, Marketing Dept., P.O. Box 278
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Creating a new world with ELECTRONICS

HUGHES PRODUCTS

". . . Chile is negotiating a $100-million German loan for roads, port construction, copper smelters . . ."

STORY starts on p. 152

more than doubled in the past five years from $30.4-million to $64.2-million.

Volkswagens are a big hit in Mexico City. The Mercedes-Benz has almost surpassed the Cadillac as the prestige car for rich Mexicans. AEG, Germany's big electrical equipment producer, has been a big supplier for Mexican Light & Power Co.'s new $8-million plant at Lecheria. (Mexlight officials say that German prices for turbines are about half of U. S. prices.)

German companies hope to cash in on the recent loan made by the Common Market countries to Pemex, Mexico's state-run oil company. The Commerz bank and Bank verein both participated in the loan for machinery and petrochemical equipment.

In Argentina, German industry has made a big comeback.

With lavish long-term credits, it has supplanted Britain's prewar position in the metal and machinery industry. But the biggest competition has been the "aspirin battle." Leading contenders for the annual 1-billion-tablet market are Bayer Leverkusen (formerly part of I. G. Farben) and the U. S.' Sterling Drug.

Faced with Argentine import restrictions, German companies now are running second only to the U. S. in building subsidiaries. Hoechst, BASF, and Bayer all have entered joint ventures with Argentine capital. Soon, Mercedes and Borgward, both expanding, will be competing with well-established Kaiser and with Ford, which is building a new plant. General Motors is using German BMW-made engines in its locally produced GM cars. When German tractor producers complete new plants, they will give John Deere some stiff competition.

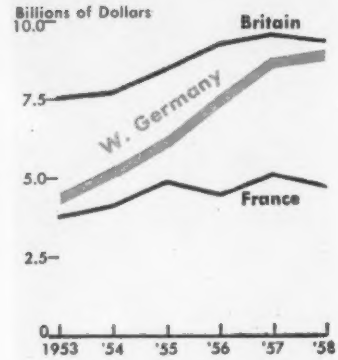
All sorts of German companies, from Deutsch Bergwerks to Thyssen AG, have offered huge credits to Argentina. Main go-between in German deals with Argentina has been the Deutsch-Suedamerikanische Bank AG, Hamburg—a subsidiary of the big Dresdner Bank.

Meanwhile, nearby Chile is negotiating a $100-million German loan for roads, port construction, copper smelters, and oil refineries.

In the Middle East, the Germans have partly filled the commercial vacuum left by the British and French. In so doing, they have helped check Soviet and Communist East European efforts to get a strong foothold in such countries as the United Arab Republic.

Take Egypt (part of Pres. Nasser's UAR). For a while, it looked as if it

Exports



Data: United Nations, O.E.E.C.

would become a Soviet economic satellite. But by boosting their exports to Egypt—$69-million worth last year—the Germans have limited Soviet moves. That's in spite of a drop in Egyptian sales of cotton and rice to Germany. About 60% of German exports to Egypt have been capital goods; around 33% in chemicals, fertilizers, steel, and coke.

• **Strong Points**—Beirut observers trace Germany's success, in part, to slightly cheaper prices, prompter deliveries, and precision servicing. But, as they see it, the main reasons are:

• Germany's willingness to adapt its trade to the requirements of newly independent countries. It works out multilateral payment deals, also helps finance exports for money-short countries. Thus, one year ago Bonn agreed to guarantee $138-million worth of credits from German companies operating in Egypt. As a result, a consortium headed by Krupp is building a paper mill, and others have begun projects.

• The Middle East's good feelings toward Germany. To many Arab leaders such as Nasser who speak out against "imperialism," Germany serves as a convenient middleman for maintaining economic contact with the West.

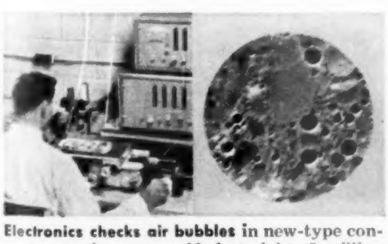
• **Weak Spot**—Over-all, the only dim spot in Germany's export picture is pressure for wage increases. With unemployment at an all-time low, German labor is pressing for wage hikes. In fact, Germany may face a bout of wage inflation similar to those Britain and France have been through. That could cut into Germany's price advantage in foreign markets.

Still, German labor—traditionally, and especially over the past decade—has been far more disciplined than, say, French labor. Partly because of that, prices have risen only 24% since 1950. For the future, say Bonn observers, German companies will continue to have some edge over foreign competitors because of labor's unwillingness to disrupt economic growth. END

Interstate 90 (Northwest Tollway) near Chicago, all new-type concrete

"'Case of the smooth, quiet ride' —that's what I'd title my travels on new-type concrete!"

Says **ERLE STANLEY GARDNER**, distinguished writer, creator of lawyer-detective Perry Mason, seen on the CBS Network every Saturday evening



Electronics checks air bubbles in new-type concrete, specimen magnified at right. 5 million microscopic bubbles ("air entrainment") per cubic inch give freezing moisture room to expand without damaging pavement.

"When I hit the road, I really appreciate new-type concrete—especially when I've got one of my office-house trailers in tow. This concrete's *flat* . . . unruffled as a millpond on a windless day. Never jiggles or sways you. And no thumps. We're getting thousands of miles of it on our Interstate System."

Highways are happy ways when they're of new-type concrete. This modern pavement's so smooth-riding . . . so restfully quiet. Gives you that wonderful "this-is-fun" feeling.

No waves and dips on new-type concrete. You ride the flattest pavement there is. It's sound-conditioned, too—never a thump. Laid continuously, it has only tiny, sawed-in cushion spaces you can't *hear* or *feel*. Expect new-type concrete to *stay* flat for *50 years and longer*—specially designed subbases help keep it that way.

Even freezing and de-icers won't roughen this surface. Highway engineers use a unique process called "air entrainment" that puts billions of tiny protective bubbles into the concrete.

There's driving safety here, too—in concrete's grainy surface that gives dependable skid resistance—in its light color that lets you see better at night.

Concrete also goes easy on your tax dollar. First cost is moderate and maintenance expense will be as much as 60% lower than for asphalt.

It's no wonder you see so much of the new Interstate System being paved with new-type concrete.

NEW-TYPE Concrete

PORTLAND CEMENT ASSOCIATION

A national organization to improve and extend the uses of concrete

INTERNATIONAL OUTLOOK

BUSINESS WEEK
JUNE 20, 1959

A BUSINESS WEEK SERVICE

The Geneva conference at midweek still was balanced on a knife edge. Success or failure depended on whether Premier Khrushchev would accept a compromise Western plan for Berlin as a basis for further negotiation—either by the foreign ministers or at the summit.

The lastest Western proposals provide for a reduction in Western garrisons in West Berlin, limitation of cold war activity there by both sides, and an agreement on Western access rights. (The East Germans would be in on the access arrangements, thus gaining de facto recognition from the West.)

A breakdown of the foreign ministers' conference wouldn't necessarily end negotiations over Berlin. Remember this: Both sides are bargaining hard now, trying to get the best terms possible. **It's conceivable that Khrushchev would prefer to bust up the Geneva conference at this stage**—with the idea of prying bigger concessions from the West later.

Washington never expected Khrushchev to let Gromyko close a deal on Berlin just so he could be sure he would sit down with Eisenhower at the summit. From the first, it has been pretty clear that the Soviet Premier would want to do the final bargaining himself.

The West will be satisfied if Khrushchev agrees now that he is ready for give-and-take negotiations on Berlin with the Western chiefs of state. Even if he doesn't agree to that now, East-West dickering for a summit meeting and a Berlin compromise could still go on. Vice-Pres. Nixon will have private talks with Khrushchev when he visits the U. S. exhibition in Moscow next month.

Then, there's this to consider: The Geneva talks on banning nuclear tests offer a possibility of a test ban agreement that might be formally concluded at a summit meeting. Even if such a meeting were held ostensibly to ratify a test ban, the question of Berlin would be sure to come up.

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Washington has decided to bail out Brazil with the equivalent of a nearly $300-million loan. That's in spite of Rio's refusal to follow an austerity program adamantly recommended by the International Monetary Fund.

Agreement is sure to cause trouble between the U. S. and most of Latin America. Here's why: Washington so far has made financial aid to Latin countries contingent on IMF-proposed economic reforms. Bolivia, Chile, Peru, and particularly Argentina have risked political unrest to comply with IMF's advice. Now **Latin countries, seeing Brazil's victory in defying the IMF, may cry that the U. S. is following a double standard.**

Many Latin governments, in fact, may try to flout the IMF and appeal for U. S. aid on straight political grounds.

Washington's decision on Brazil is a stopgap measure. It is simply refunding most of Rio's short-term debt—not offering a new loan.

Failure to help Brazil would touch off a political explosion in Rio, says the State Dept. It also would undermine Washington's slow improvement in relations with Latin America.

Still, hard-headed economists in Latin America aren't happy over Washington's giving into Brazil. They realize the need for belt-tightening

BUSINESS WEEK
JUNE 20, 1959

to help bring the economies of many Latin countries more in balance.

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The de Gaulle government has won its first test of strength with the French trade unions. This week it headed off a nationwide railway strike by threatening to draft half the rail workers into government service.

Now the government is sure it can hold the line against wage increases for the rest of 1959, and thus safeguard the stabilization program it launched at the start of the year (BW—Jun.13'59,p104).

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It's a tossup who will win West Germany's presidential election.

If Konrad Adenauer had stayed in the running, it would be a cinch for the Christian Democrats on July 1. But with Adenauer remaining as Chancellor, the CDU has had to settle for a colorless candidate—Agriculture Minister Luebcke. The Socialists, by contrast, are running their most popular man—Carlo Schmid.

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The Swedish-British scheme for a "little free trade area" of seven European countries got a green light last week from a Stockholm meeting of officials. As a followup, there's to be a meeting of ministers in the middle of July.

The countries involved are Britain, Sweden, Norway, Denmark, Switzerland, Austria and Portugal. They are known as the "outer seven." All are miffed at the refusal of the six-nation Common Market to join last year in a broader Free Trade Area. This would have provided for a Europe-wide removal of tariffs and quotas. **As things stand now, each of the countries in the "outer seven" can expect to find many of its products gradually frozen out of the Common Market.**

The new scheme boils down to this: **The "outer seven" would reduce tariffs by 20%** between each other on July 1, 1960. With that move, two things would happen. First, the "little free trade area" would be on a par—in terms of tariff cuts—with the Common Market. (This group made a 10% cut last Jan. 1, and another 10% cut is due at the start of next year.) More important, a member of the Common Market, say West Germany, would find itself at a disadvantage in selling to Sweden or Britain. (Both are important markets for the Germans.) In short, the shoe would be on the other foot.

Before things reach that point, however, **the "outer seven" expect the Common Market to start working out a joint arrangement that would link the two groups together.** This, of course, is the real purpose of the new scheme.

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• **Iraq's Premier Kassem, at last, seems to be taking a firm stand against local Communists.** He is quietly easing Communists out of crucial positions in the state-controlled radio station. He also is trying to break the Communists' grip on Iraqi trade unions and peasant associations.

Non-Communist support for Kassem's government is growing. The influential National Democratic Party is refusing to form a "national front" with the Communists. Army officers are resisting Red infiltration.

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Lean Times for Money-Changers

● New York is still the leader in foreign exchange, but European cities are challenging its position. The rivalry has shaved profits on both sides of the ocean.

● Convertibility of Western European currencies has taken away other once-profitable sources of business.

● The speculators are especially hard-hit by the new stability of foreign currencies. They have to hunt for the special situations that will make money for them.

Ever since World War II, New York has been the place where the non-Communist world's "foreign exchange market" centered. The great majority of all the deals that involved turning the currency of one nation into that of another eventually cleared through New York. The big banks that operate in the New York foreign exchange market handled deals not only for Americans who wanted pounds or francs but also for Frenchmen who wanted deutschemarks or Belgians who wanted pesos.

New York is still top dog in these currency dealings. But its position is no longer unchallenged. More and more foreign exchange business is going to its European competitors—London, Frankfurt, Paris, and Amsterdam.

• **Comeback of City**—London is already emerging as a serious rival for top place. In fact, one foreign exchange trader admitted this week: "The city is practically No. 1 as a market for foreign currency deals these days. We'll have to work hard to stay with them."

London was the world's principal exchange center until New York took over first place at the outset of World War II. In number of trades, it probably already leads New York once more, but it still lags in size of transactions. According to Joseph R. Kramer, foreign exchange trader at the Bank of America's New York agency, which is one of the biggest factors in the market: "We can usually fill orders for £1-million or £2-million without any trouble. But when we go to London with an order like that, we find that the dealers have to split it up in £100,000 to £250,000 lots."

I. Stable Currencies.

The resurgence of the foreign centers stems from the growing strength of West European economies and from the introduction of currency convertibility and abolition of the European Payments Union last December. These moves to ease credit and trade barriers have gone a long way to promote economic integration of Western Europe. Completion of the process of freeing currency transactions—specifically, outward capital movements—should give European exchange centers a bigger role in international transactions.

• **Nature of Market**—The foreign exchange "marketplace" isn't really a market at all, in the sense of a stock or commodity exchange with brokers and dealers meeting under a single roof to buy and sell. As it is presently organized in New York, there are about 25 domestic banks and an equal number of foreign bank agencies that regularly make a market in currencies.

The size of the market varies from day to day, with unpredictable flows of currency always cropping up. Some traders estimate that on a busy day in New York, some $100-million worth of currency will change hands. Sterling and Canadian dollars are the two most actively traded currencies in New York.

• **Big Deals in New York**—No foreign financial center is yet equipped to handle this sort of volume, and most of New York's foreign exchange operators think they will continue to handle most of the big transactions.

As world trade has increased and expanded, they point out, New York's marketplace has taken on even more significance. In a broad sense, notes Alan R. Holmes of the New York Federal Reserve Bank, New York's trading is "a mirror of the complex forces that lie behind the U.S. balance of payments with the rest of the world" and of the developments in foreign countries that may affect the worth of their currencies.

What's more, adds another specialist, the growing strength of European currencies since convertibility could lead to an increase in foreign exchange activity in the New York market, once the initial impact of convertibility wears off. But right now, convertibility is causing some adjustments.

• **Rivalry**—The number of trades in New York is still high and rising, and there's no shortage of any currency, whether the trade is deutschemarks for pounds or francs for dollars. But Europe's newly unfettered exchange centers are trying to increase their share of the business. As a result, there's split-hair pricing on both sides of the ocean. New York dealers complain that the spread between buying and selling prices is now so minute that little, if any, profit is left in daily trading.

Moreover, competition among traders and the general economic health of European countries have brought remarkably stable exchange rates for currencies. This means that little profit can be made by holding large positions, either long or short.

II. Market Operators.

Not all of those who operate in the foreign exchange market are equally affected by the decline in profitability. There are three main groups of operators:

• Commercial banks, which operate their foreign exchange departments mainly to service commercial accounts that need foreign exchange in the normal run of overseas business.

• Brokers, whose primary function is to bring together buyers and sellers among banks, thus enabling them to even out their positions. For each transaction that he arranges, the broker receives a commission from the selling bank.

• Dealers in foreign banknotes, the bulk of whose business is in retail trading to tourists.

• **Banks Not Hurt**—The big banks, like First National City, Bank of America and Chase Manhattan, which dominate the market, say that the profit squeeze doesn't bother them. They regard their foreign exchange departments as service organizations, anyway, and would probably remain in the foreign exchange market even if they had to operate at a loss. Says one banker: "We'd make it up somewhere else."

But the brokers and dealers are hurting. Competitors in foreign markets are taking some business away and threaten to take still more. For though volume is high, the pickings aren't so lush, even for the fast-footed trader, as they were just a few years back.

• **Dealers Lose Out**—The banknote dealers built themselves a rich business in the days when fixed rates and exchange controls kept exchange rates artificially high. Thus, they were able to offer attractive discounts from official rates on folding money to tourists,

while still raking in tidy profits for themselves.

With convertibility, though, the dealer banknote business has slumped. Fred C. Tordella, vice-president of Perera Co., Inc., a leading dealer, admits that he can offer his clients only a fractional advantage over travelers' checks, even with the service charge on them, in selling currency to them in New York.

• **Brokers Squeeze**—The seven foreign exchange brokers in New York are subject to a similar profits squeeze. For competitive reasons, banks in the New York market don't like to disclose their positions in foreign exchange to each other and are willing to pay brokerage in order to keep this information confidential. So this keeps the brokers in business.

But the increasing competition from Europe has narrowed bid-and-asked spreads so that brokers—whose fees are figured as percent of the spread—say they need a lot more volume to make money.

On a typical exchange deal this week, for instance, the broker profit on a £100,000 deal ($280,000) was only $20. "A few months ago, the commission was three times as large," says one broker.

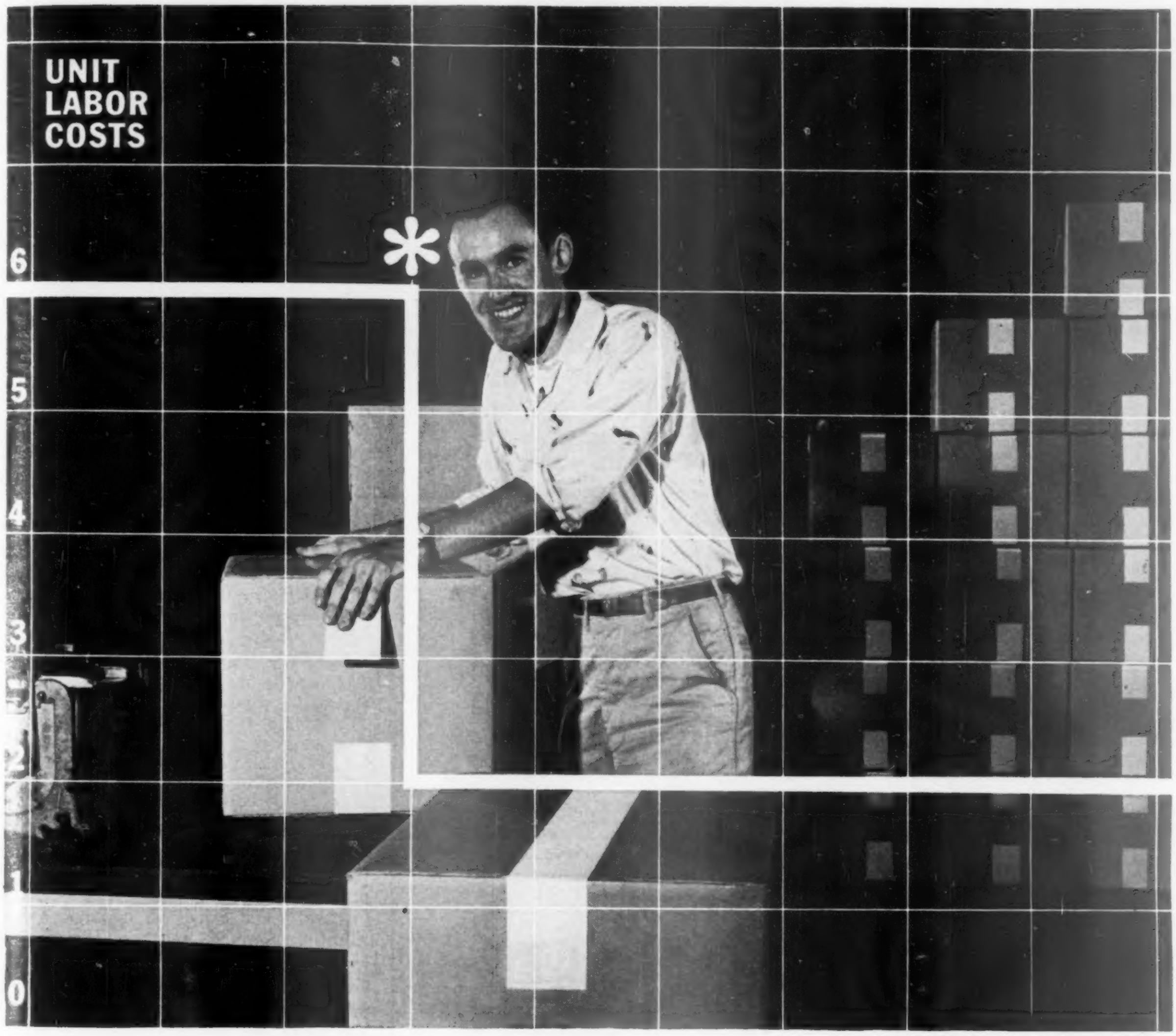
And in large transactions, where the brokerage becomes important, some banks now say that the brokers have been "completely squeezed out." "There just isn't enough profit in trading these days," says one banker, "to make it worthwhile to use a broker when the stakes are high. When we need a million pounds, we trade direct over the wire"—which means direct transaction between banks.

III. Convertibility

Apart from the decline resulting from narrowing spreads, some of the New York banks report that convertibility has cut into their share of worldwide trading in sterling—which has caused them to make some adjustments in their operations.

Prior to last December, when England made its big move toward convertibility, New York was the center for such trading in sterling as was permitted by the British exchange control authorities. Now, with the four types of sterling—American, Canadian, transferable, and registered—merged into one freely convertible account, a good part of the trade in sterling never gets to New York. It's possible now for European countries to settle account transactions easily among themselves.

So, although they still have to maintain positions in foreign currencies worth several million dollars, the New York banks also find their earnings from currency transactions are dropping. For



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example, because of increased stability, there's been a drop in future trading by companies anxious to "hedge" against changes.

Faced with this drain, the New York banks—which already maintain big currency accounts in foreign banks—are moving aggressively to obtain bigger balances from banks overseas. These deposits, in turn, can be lent out in the domestic market, and the foreign department is credited with the earnings.

• **The Sterling "Club"**—Convertibility hasn't been an unmixed blessing for the London market, either. In fact, it has led some countries that have been members of the sterling bloc to question whether it is worthwhile to stick with the club. When dollars were scarce, participation in London's convertible currency pool was a valuable part of the club membership, since a member country knew it could always settle payment differences with any other country through a pound-sterling transaction in London.

Another advantage of participation was that members could depend on access to the English capital market on much the same terms as British borrowers, and they also could depend on the good-will of the group in time of need.

Now that sterling is convertible, nonmembers can exchange sterling for gold, dollars, or other convertible currencies as easily as members.

• **Narrow Spread**—So far, the change in the foreign exchange market shows up most in the narrowing spread between bid and asked prices on sterling. A few months ago, it was an eight-point spread; this week it was only two points. That is to say that buyers of sterling paid $2.8118 per pound while sellers got $2.8120.

• **Effect on Currencies**—While convertibility has resulted in strength for most of the European currencies, the Swiss franc—for years the Gibraltar among currencies—has softened somewhat as a direct result of the new freedom that convertibility has brought. It used to be that the foreign holder of a sterling balance, blocked by British exchange control from buying dollars directly, first had to buy Swiss francs in order to get dollars. Convertibility has made this arrangement superfluous.

Among the South American currencies there are a few islands of strength, but most currencies are weak.

Most of the Far Eastern currencies have been stable in recent months, but the Philippine peso stands out as an exception. Official quotes show the peso strong and stable, but in the gray market—which the big banks won't touch but some dealers will—it has dropped more than 50% from the official rate and there's talk of an imminent devaluation. END

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Job's Done—$8-Million Killing

Coup in AT&T convertibles leaves brokerage partners free to retire from Wall Street to medicine and social work.

CHESHIRE CAT GRINS mark Lawrence Lembo (left) and Seth Glickenhaus as they head for home. They've made the one big killing of which speculators dream.

Last Apr. 22, Seth M. Glickenhaus (picture) of Glickenhaus & Lembo, a small Wall Street firm specializing in bonds, put in a call to Albert Feldman, on the trading deck at Goldman, Sachs & Co. "Al," said Glickenhaus, "we're ready to convert. How about handling it for us?"

Thus ended a truly remarkable tale of a highly speculative venture, which amounted to a profit of $8-million before taxes. This is a major killing, particularly in these days of regulation and restriction. Some Wall Street men call it "the shrewdest coup in some years."

This coup, moreover, was not in some "hot" glamor stock. Glickenhaus and Lawrence W. Lembo made their profits in one of the bluest of the blue chips, American Telephone & Telegraph. By adroit use of margins and careful timing of their purchases and sales of AT&T 4¼% convertible debentures, they were able to pull off what every speculator dreams about, but few ever realize.

• **Professionals**—Glickenhaus and Lembo are not amateur operators. They are Wall Street professionals who learned the art of speculating the hard way. Before the big venture, they made and lost lots of money in other speculative deals. From the first, though, they have been out to make one big killing and then go on to other things.

Now they are able to do just that. Their venture was so successful that the two partners—who in 20 years parlayed a stake of $500 apiece into a $12-million firm—have decided to close up shop. Next February, when their fiscal year ends, their partnership will be dissolved, and the two men will pursue vastly different lives than they led in Wall Street.

The 45-year-old Glickenhaus will go to medical school, and hopes to end up in research. Lembo, 57, more sedate, will take a year off to travel, then aims to get full-time work as a social worker, "preferably with kids."

• **No Regrets**—Both insist they will look back on Wall Street with fond memories, but neither thinks he will miss the hurly-burly. "It's an exciting place," Glickenhaus admits, "but each of us thinks he'd like to contribute a little more to the world we live in."

That pretty well sums up their thinking. Both have used their imagination and resources to good advantage in Wall Street, and they plan to do the same in their new fields.

Glickenhaus and Lembo first teamed up in 1939; each had worked for a number of years on the municipal trading desk at Salomon Bros. & Hutzler. They launched their municipal firm with $1,000, which was actually sufficient for their trading operation—they held no inventory of municipals, merely bought and sold for investors.

By the end of World War II, the firm was modest-sized. Then it expanded, and became a dealer—that is, it made markets in certain securities and stood ready to hold inventories. "There are two ways of being a dealer," says Glickenhaus, "he can make markets, as a grocery man carries butter to sell, and make some profit on a slight markup; or he can carry an investment position and gamble for big appreciation. We played it both ways."

• **Friends Bought In**—To set up this broader operation, Glickenhaus and Lembo formed a corporation in 1946, invited friends to participate as shareholders. Initial capitalization was $200,000; Glickenhaus put in $13,500 and Lembo $11,500.

In 1950, the corporation was so successful that it was dissolved and its capital distributed in order to avoid heavy taxation. A partnership was formed instead, which has worked along these lines: Glickenhaus—who plays the major role in guiding policy—and Lembo, are general partners; they take a nominal salary, plus expenses. The limited partners get 6% of the first cut of profits, then Glickenhaus and Lembo split the rest of the profits 50-50 with the limited partners. Over the years, however, Glickenhaus and Lembo reinvested their earnings, upped their share as limited partners to the point where they now have 80% of the firm's assets.

The two men feel it's a good deal all around. For instance, they claim

that a limited partner who started with them in 1946 with an initial investment of $10,000 would now be worth close to $204,000, if all his earnings were reinvested.

• **Branching Out**—As the firm prospered, it branched out in what was to prove its forte—convertible bonds. Glickenhaus concentrated on this segment of the business with the third man of the office, 39-year-old John Scudder, while Lembo guided municipal bond activity. Scudder, by the way, now hopes to emulate the firm, set up his own investment syndicate.

The convertible, technically, is a debenture—a bond paying a fixed yield and not secured by any specific asset, but only by the earning capacity of the issuer. Its peculiar feature is that it can be exchanged at the owner's option for a specified amount of the company's common stock. Most people stress the exchange feature as a chance to share a company's future earnings on an equity basis, while having the protection of a fixed income if future earnings don't pan out.

Companies generally float convertibles as a means of adding new common stock without diluting shareholder equity at the time of the issue. Traders and investors regard convertibles as a call—an option to buy—the stock of the issuer at a stated price at some future date. "You have the support of a bond, yet the built-in potential of a romantic stock," says Lembo.

• **Limiting Losses**—Most of the firm's successes—as well as its failures—have been due largely to its speculating with convertibles. "We had only one major rule," says Glickenhaus. "The primary question we asked was 'how much could we lose?' Only then did we consider how much we could make."

As dealers, they could buy convertibles on roughly 10% to 15% margin so they couldn't afford sour investments. As Glickenhaus sees it, the main thing is to minimize downside risk. "I like good convertibles, because it's like spinning a coin and saying heads I lose a little, tails I win a fortune."

At first, the partners were interested in building working capital, so they moved in and out. In 1949, for instance, they bought $1-million worth of Southern Pacific convertibles at 102. They sold out at 110; the convertible eventually hit 190. But the partners thought that as the convertible rose, the downside risk did too.

The firm's successes far outweigh its failures, but it has not been immune to losses. Often, it lost the entire budgeted amount it had set aside for a venture. In 1946, Glickenhaus and Lembo were trapped in speculative bonds in a market collapse; the corporation lost 25% of its initial capital.

• **Major Blooper**—In 1957, the firm pulled one of its prize boners. It had bought $400,000 worth of Brunswick-Balke-Collender 4¾% convertibles at 116. But in mid-1957, a graduate student's thesis circulated around Wall Street to the effect that Brunswick was grossly overvalued because of unconservative accounting practices. Many Wall Street pros pulled out. "How could we discount academic learning?" scoffs Glickenhaus. They got out at 119. The bid on Brunswick's convertible this week was 285.

The firm took some other poundings, too—particularly in 1957. It was heavy in Chrysler common stock when the stock market broke that year; it also took a $250,000 pasting in Wheeling Steel after converting an issue to common, and it lost a handsome sum in Standard Oil of Indiana convertibles.

But these losses are paltry compared to the firm's big killing in the AT&T 4¼% convertibles of 1973.

• **AT&T Plans**—In early 1958, AT&T completed plans to issue $718-million in convertible bonds, callable in 1960. The bonds had a face value of $100, paid 4¼% interest. Each bond could be converted into a share of AT&T stock by the payment of an additional $42. As usual in AT&T financings, rights to subscribe to the issue were provided to common stockholders; nine rights were needed for each $100 bond. AT&T stock at the time was selling at about $169. So the convertible was being priced at roughly 127 on a "when issued" basis. The $27 premium over face value was in line with the difference between market price and conversion cost.

To Glickenhaus and Lembo, the offer "was an open invitation to speculators." They chalk up a number of reasons for what they consider their "natural" move:

• They figured that this was a chance to buy one of the real blue chips that had not yet participated in the bull market.

• They calculated that AT&T's net earnings per share would have been greater if it had not been for a steady dilution of common stock through stock offerings. But with the convertible issue, the company would achieve a debt-equity ratio it had been striving for, and thus there was less prospect for any more dilution in the near future.

• Once earnings improved, AT&T "was bound to do something to recapture small stockholders who had switched into faster-moving stocks." They guessed right. AT&T this year split its stock 3 for 1 and raised its dividend.

They made one false start. From Jan. 20 to early February of last year, the firm, acting as a dealer, bought $2-million of "when issued" bonds at an average price of 126½ a bond. Then,

GLICKENHAUS says he worried only a bit as gigantic deal cooked up slowly.

LEMBO was the firm's worrier, admits he spent some sleepless nights of waiting.

they got to worrying that the price would drop as small stockholders rushed into the market to sell their rights before the settlement date. So they sold off their commitment at a profit.

• **Buying Resumed**—On Feb. 13, the firm resumed purchasing, mainly as an investment. On Mar. 26, it had $6-million bonds par value, roughly $7.8-million in market value. It had put down about 15% margin—some $1-million; the rest was carried by banks at interest rates as low as 3% or 3¼%. Thus, the partners also made money on the interest—or what bond dealers call the "carry"—since the bonds yielded more than the interest the firm was paying to the banks. Glickenhaus says this profit was around $50,000.

As the market went up, Glickenhaus and Lembo grew more confident. They bought heavily, slackening their pace only slightly during the bond market's shakeout last year.

At times, the firm paid as high as 185 per bond, but its final average was 137

—only 10 points higher than when the initial market for the bonds was created. Finally, the firm had $11-million bonds par value, some $22.9-million market value, since the market price was then 209. It had put up, in effect, only about $2.2-million of its own funds.

• **Stock Split**—The next big question was when to unload. "We had to pick the ripe moment," recalls Glickenhaus, "and we found it when AT&T said it would split its stock. Psychologically, the public was primed to buy AT&T."

Besides, the partners felt there were other weak spots developing. Utility stocks had been dragging and the bond market had been seriously deteriorating. These weaknesses, the partners thought, could hurt AT&T. So shortly after AT&T's new stock began trading on a "when issued" basis, Glickenhaus and Lembo made their move.

Aware of their big position—as all Wall Street was—Feldman of Goldman, Sachs needed no prodding when he received Glickenhaus' call. With Walter Blaine, a partner in the investment banking house, and with Glickenhaus, he explored the prospects of the massive offering. Goldman, Sachs, in a package deal, agreed to buy the block at about 209, then it turned around and converted the bonds into stock. Since AT&T had just split its stock 3 for 1, the convertible debentures were now equivalent to 330,000 shares.

• **Final Sale**—Goldman, Sachs then sold the stock on a "best efforts" basis —which took it off the hook for any unsold shares. The whole block was sold in secondary offering, off the floor of the exchange, at $85.37 a share, equivalent to about $256 a share on the pre-split basis. Glickenhaus and Lembo picked a good time for getting out. AT&T sold as high as $89 a share, but only temporarily. This week, the shares were trading at about $76, the convertible was at 185.

Minus the trimmings, Glickenhaus figures his firm made a cool $8-million before taxes on the whole transaction. Profit was all a long-term capital gain.

• **Anxious Moments**—Both partners take pride in the AT&T deal, but Lembo admits there were sleepless nights. Glickenhaus says that he didn't worry: "There are two types of people in this world. Those who can't sleep if they owe money, and those who don't feel fit if they owe less than $20-million. I'm one of the latter."

The partners are seeing to it that there will be no more sleepless nights until next February. The investment house now has a "passion for cash"—it is 70% in cash or near-cash, and it is holding only three convertible bonds (mostly unrealized losses), Richfield Oil, Merritt-Chapman & Scott, and Potomac Electric Power, and one rail bond, Canadian Pacific. END

In the Markets

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Analysts Plug "Special Situations" In Face of "Nervous" Market

Led by a resurgence in steel stocks, the stock market this week tried to gather steam for a new rally. But it had trouble sustaining an upward move, because investors are selling as soon as market prices rise.

Stock analysts feel the over-all market now is vulnerable to wide swings; so they are recommending that customers move into "special situations," which, they say, will move independently of the main trend in stock prices. They admit, however, that any substantial move into special situations will make the market even more vulnerable, since it will draw purchasing power away from blue-chip equities.

Normally, the summer is a good time for the market, with gains far outnumbering losses. This may be the case again, but at present, the market seems nervous and uncertain. This week, for example, rumors of a cut in crude oil prices were enough to send some oil stocks skidding, and softness in plywood prices led to a sharp correction in the stocks of leading producers.

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Fire and Casualty Company Stocks Expected to Rise as Earnings Improve

Brighter prospects are in store for fire and casualty company stocks, according to First Boston Corp.'s seventh annual report on 44 major stock companies in the field. The study points out that rate increases, particularly in automobile insurance, should help to boost earnings. It adds that fire losses have been running lower this year than in 1958. In general, there has been better control over costs, partly through reducing commissions.

Underwriting losses exceeded underwriting profits in 1958, although the gap was narrower than in 1957. This year, First Boston expects the improvement to continue, and, as a result, fire and casualty stocks should rebound from present depressed levels.

Preliminary figures for a representative group of fire and casualty companies show that they operated in the red during the first quarter. First Boston explains that this is the industry's seasonal low.

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Ecker of Metropolitan Life Cites Industry Opposition to Variables

More than 80% of the insurance industry is dead-set against variable annuities, Frederick W. Ecker, president of the Metropolitan Life Insurance Co., claimed this week. Ecker has been the industry's No. 1 opponent of variables—whose value fluctuates with the price of common stocks. This week he revealed a poll of companies that showed he had some substantial backing.

Replies were received from 256 companies—one was not sought from the Prudential Insurance Co. of America, which has championed the sale of variables. **Ecker noted that 210 companies, or 81%, said they did not believe that sales of variable annuities to individuals would help the insurance business.** Of these, eight did indicate, however, that they might approve sale of variables through a subsidiary company. **Only 28 said they believed that variable annuities would be in the best interests of the industry.**

Ecker said the survey's results had been shown to Gov. Robert B. Meyner, of New Jersey, who is expected to sign a bill passed by the state legislature permitting sale of variables in his state.

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Shareholder Population Rises Sharply to 12.5-Million

The New York Stock Exchange's third census of shareowners shows that the stock owning population is up to 12.5-million, compared with 8.6-million in 1956 and an estimated 6.5-million in 1952.

Although there has been a big increase in the number of small shareowners, the survey shows that institutional stockholders—banks, mutual funds, insurance companies—have been buying up a larger proportion of the available shares. Institutions held 17.5% of all outstanding shares in 1959 compared with 15.7% in 1956.

The study also reveals that employee stock purchase plans have been a major contributor to the growth in the number of shareowners. Of the total shareowner population, more than 2.5-million first acquired stock through a company plan.

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Mortgage Bankers Try to Interest Pension Funds in FHAs and VAs

Mortgage bankers are making a big pitch to get more pension funds into FHA and VA-backed mortgages. A new study, financed by the Mortgage Bankers Assn. of America, was released this week, backing up its contention that FHAs and VAs are better long-term investments than either corporate or government bonds.

The study, written by Dean G. Rowland Collins and Prof. Jules I. Bogen of New York University's Graduate School of Business Administration, cites FHAs and VAs as being "comparable to U.S. government bonds in quality, although offering higher yields and possessing other characteristics that make them a good deal more attractive to institutional investors."

Among these characteristics, Collins-Bogen noted that **FHAs and VAs are not subject to wide price fluctuations, and that they are easily sold in the secondary market.**

The study points out that the pension money potential is massive. Corporate pension and state and local retirement funds totaled more than $40-billion in 1958, they say, while only 0.3% of the corporate funds and only 0.2% of the state-local retirement funds were invested in mortgages at the end of 1958.

PERSONAL BUSINESS

BUSINESS WEEK
JUNE 20, 1959

A BUSINESS WEEK
SERVICE

The summer sports season, unhappily, has its tragic side.

Accidents are forever "part of the game"—a guest slips on a defective diving board; a caddie is hurt when a drive slices sharply; a teenager is clipped by a foul liner at the ballpark. The situations are myriad.

One question, of course—often vital—is that of financial responsibility. **Are you liable for damages? When do you have a valid claim?**

Spectator sports, generally, involve less legal confusion. Take the baseball line drive that injures you or a family member. Your chances of recovery against the ball company—even for hospital bills—are nil. Why?—because when you took your seat, you "assumed the risk" of all normal hazards of attending the game. This rule extends to all spectator sports.

It wouldn't apply though in the case of a spectator hit by a bat thrown by an ill-tempered player. **You don't assume that kind of risk.**

What happens if, say, your small son is roughed up by a fellow spectator who jumps from his seat to capture a souvenir baseball or cheer a touchdown? **Here the assumed risk idea recedes, and the question of negligence on the part of the exuberant spectator comes into the picture.**

Participation sports are apt to produce more complex cases.

Take deep sea fishing, for instance. Say you're off shore in fairly rough water; in casting, you hook a companion and cause a severe injury. Will you be liable? **Here there are at least three basic tests:**

Again, there's assumption of risk. **Was the injury, in fact, clearly within the scope of normal risk assumed by a man who goes deep sea fishing in rough waters?** If it was, you might be free of liability.

Then there's the general test of negligence. Did you fail to exercise reasonable care—ordinary prudence—when you cast your line? If you were careless, you'd likely be held accountable—but not necessarily.

You still have a possible "out": contributory negligence. Assuming you were negligent, was it also true that your companion was at least partly to blame for the accident? **If he was even slightly negligent, probably your negligence would be canceled.**

How about golf, a sport with its full quota of risk?

Look at a typical case. You shout "fore," but your shot takes a sharp hook and cracks a fellow player. Ordinarily, you escape liability no matter how serious the injury inflicted. **The law recognizes that even a top golfer has his off days.** The other chap chanced this when he walked on the course.

Or say you're a respectable player and know from long experience that even your weakest drive is good for, say, 130 yds. or 140 yds.—so you tee off without a warning, knowing that your ball will sail high above a man crossing 75 yards in front of your position. **But instead of your usual arched shot, you bang a low "caddie killer" and strike the man.**

Result: You're liable for damages—there's a clear duty to warn anyone reasonably within your line of fire. **Note, though, that if the other player is aware that you are about to shoot, your failure to shout "fore" won't render you liable.**

Finally, consider swimming pool hazards. If you own a pool, you're bound by a strict rule of responsibility in relation to (1) invited guests, and (2) children whether invited or not.

A defective diving board clearly would be your responsibility, and probably you'd be liable for damages unless the guest had been specifically

BUSINESS WEEK

JUNE 20, 1959

warned of the danger. Sharp glass on the bottom of the pool likely would render you liable, too, even though you were unaware of its being there.

The same would hold true for glass scattered around the edge of the pool, despite the fact that a cautious person might have spotted the glass.

As for children, generally the law says you maintain a pool strictly at your own risk—and this would be true even in the case of the child hurt playing in your pool as a trespasser. State laws vary on all of these points, of course, but in many places, at least, your liability to children as a pool owner is nearly absolute, on the theory that you voluntarily maintain an "attractive nuisance."

Moral: Buy "comprehensive personal liability" insurance—$13 to $24 a year for $50,000-limit coverage, depending on where you live.

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On the pleasant side, if you're a weekend golfer, you may welcome a new 7-ft. practice net with adjustable sidewings. And you can attach a target that tells you how good your iron and wood shots are (Petra Mfg. Co., 1335 N. Wells St., Chicago 10; $39.95).

On a rainy day when you're not playing, you can amuse and console yourself by reading **Confessions of a Golf Addict,** by George Houghton (Simon & Schuster, $3.50).

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Despite what you may have read about the scarcity of top hotel accommodations in Europe this season, you'll find the actual situation not quite so gloomy as reported if you suddenly decided to go abroad. While deluxe hotel space is tight this month and next, August presents less of a problem. In any event, you probably can get space for a day or two even in Paris, London, or Amsterdam.

A bit of advice: It's best to have either European hotel representatives in this country or travel agents, who know where the vacancies are, check for you. And don't overlook the possibility of accommodations at distinguished hotel resorts.

If your next trip abroad requires extra luggage you might want to look into a new luggage rental service. Called **Bagabond,** it's now offered through more than 100 travel agencies in the New York area and probably will be extended to other cities in a couple of months.

Bagabond provides matched air travel luggage (3 lb. to 7 lb.) in five sizes. Weekly rentals range from $1.75 to $3.25 for the first two weeks, and after that from $1 to $1.25. **Bonus: If you decide you'd like to keep the luggage, all rental charges can be credited toward purchase.**

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The "discomfort index" has now been labeled **temperature-humidity index** by the U. S. Weather Bureau. **If you're a weather buff, you can determine the index figure for yourself by combining the temperature readings on dry-bulb and wet-bulb thermometers.** A wet-bulb reading is obtained by putting wet muslin around the bulb and then swinging the thermometer gently in the air.

The formula: Add the dry-bulb reading to the wet-bulb reading; multiply the sum by 0.4 and add 15. The index: Over 75, more than half the people may feel uncomfortable; at 80, most everyone complains.

Fighting Foreign Tool Invasion

● U.S. machine tool industry, its exports dwindling and home market threatened, is moving to counterattack.

● Though there's talk of tariffs or quotas, there's little support.

● U.S. companies' main hopes are: (1) moving to Europe to win back markets; (2) cutting costs at home.

The U.S. machine tool industry, which once could relax on a comfortable cushion of export business, finds itself squeezed on two sides today by the growth of foreign competition. Its own foreign markets have been dropping away under the impact; and foreign tool imports are slicing painfully into its domestic market.

The figures tell the sad story. Beginning with the early 1930s, some U.S. companies did as much as 30% of their business in exports. Today, U.S. tool builders' foreign sales are nearer [illegible]% to 10% of total business. On the other side of the picture, one tab-keeping U.S. tool builder reports that foreign imports rose from 3½% of all metal cutting tools sold in the U.S. in 1957 to almost 5% last year.

Over-all, this situation—while it has aroused considerable clamor—hasn't yet reached the stage of a real crisis, though in some particular lines U.S. manufacturers are already hard hit. But the industry is understandably concerned about the future. A lot more European tool builders are getting set for a try at the U.S. market.

• **Counterattack**—The U.S. industry, however, is not taking the foreign invasion in a defeatist mood, but is moving swiftly to a counterattack.

One line of action talked up by some is via the government—by means of a higher tariff (now 15%) or some kind of quota system on imports. But the industry is divided on this; and few machine tool builders, when polled individually, think it is the real remedy for their ills.

The industry, instead, is developing its own counterattack on foreign competition—on two fronts at once:

• U.S. machine tool makers are seeking to win back their dwindling foreign markets by moving to Europe themselves. U.S. tool company executives have been scurrying abroad in record numbers, briefcase in tow, to set up foreign affiliates. They are not only trying to win back lost markets but to invade new ones—in some cases, to gain a foothold overseas in markets they have never managed to crack in the U.S.

• On the production front, U.S. tool makers are busily engaged in cutting costs to meet lower foreign prices, standardizing parts, redesigning machines for greater simplicity and customer appeal, and putting more emphasis on the machines U.S. factories can turn out better than overseas makers.

I. Who's Being Hurt?

Just how successful the European invasion of the U.S. machine tool market has been in dollars and cents is hard to pin down. One main reason for this is the lack of good statistics—a lack that is an almost universal gripe of machine tool builders. As one of them summed it up, "Government estimates lump milling machines and parts together, and as far as Customs is concerned, it's all machinery anyway."

But they are convinced that lower wage rates abroad are the chief reason for the success of foreign imports. According to Ralph J. Kraut, this year's head of the National Machine Tool Builders Assn. (NMTBA), foreign-built tools run anywhere from 25% to 50% cheaper than U.S. models. Kraut is president of Giddings & Lewis Machine Tool Co., Milwaukee manufacturer of larger-type boring and milling machines.

There's also the fact that the European machine tool industry can marshal 1,500 machine tool companies—all hungrily eyeing the lucrative U.S. market—against the U.S.' 300.

• **Spotty**—In this varied group of companies, the impact of foreign sales has been felt spottily. Manufacturers of highly automated, highly engineered production line equipment—the kind that has earned U.S. industry worldwide respect for decades—have hardly been hurt at all. The Cross Co., of Detroit, whose transfer machines, costing many hundreds of thousands of dollars, are a familiar sight in Detroit auto plants, says it is meeting no European competition here. Its foreign sales, like everybody else's, are dwindling.

Hardest hit have been the manufacturers of the more standard machines—those of a more general-purpose type used in the smaller metal-working shops where maximum productivity is not the most important factor. A survey indicated, for example, that a minimum of 31% of all the radial drills bought in the U.S. in 1957 were imports.

Obviously, that brings European competition right to the doorstep of such radial drill manufacturers as the American Tool Works of Cincinnati. "There are just nine radial drill makers in the U.S., and at least 27 in Europe. So where do you think they are going to sell?" asks L. W. Scott Alter, American Tool's head.

Lathe manufacturers, too, have been hit—though just how hard is more difficult to determine. South Bend Lathe Work's president, R. E. Frushour, for example, reports his company is running into foreign competition, but concedes it hasn't proved harmful yet.

The lathe market is big enough to be tempting to foreign manufacturers, says Frushour, but that isn't true of the market for some of the specialized milling machines, grinders, and shapers that South Bend also makes. Paradoxically, South Bend's lathe exports, representing 10% of company sales, are holding steady.

Rockfort Machine Tool Co., Rockfort, Ill., is less sanguine. Its lathe lines, it says, are taking hard blows.

• **Checkup**—Pres. Kraut of the National Machine Tool Builders doesn't buy the argument that only the makers of lighter, simpler machines are being hurt by imports. He insists that every other line of tools has been hurt at some time, cites as an example: "An imported horizontal boring mill was unheard of before the Korean War; now there are some in American plants."

To find out just who is being hurt, and make up for the lack of adequate government statistics, NMTBA is making its own survey. The study, just getting under way, will determine which types of tools are getting the worst of it, and what the difference is in price tags between U.S. and comparable foreign machines.

• **Tariff Pros and Cons**—The association is compiling the data to "alert" the government on the machine tool industry's problems. But at present it is not officially calling for higher tariffs.

A good many individual tool builders

shy away from higher tariffs, feeling that good tool builders won't be hurt by imports. One says an effective tariff would have to be so large it would bring chaos. Others are concerned about retaliation against their export business.

One of the more voluble critics of tariffs, Henry D. Sharpe, Jr.,—of Browne & Sharpe Mfg. Co., Providence-based maker of milling and automatic screw machines—argues that the U.S.' chief claim to industrial fame has been its ability to do things better and more cheaply, and that a retreat into a cosy, tariff-protected nest would soon bring a rude awakening.

On the other hand, E. M. Hicks, vice-president in charge of the Norton Co.'s Grinding Machine Div., Worcester, Mass., thinks it's important to protect the U.S. machine tool capability. He favors a sliding tariff pegged to wage differences—if the situation gets worse.

II. Moving to the Attack

If U.S. tool builders are uncertain about government action to help them, there's no confusion about what to do to end the drubbing U.S. tool sales abroad are taking from Europe's resurgent industry. The counter-move to Europe, under way for a decade, is now intensifying, according to NMTBA's Kraut.

Take the G. A. Gray Co., Cincinnati company that turns out elephant-sized tools, giant planers, horizontal milling and boring machines. Where it once had good sales in Europe, that business now is virtually zero, company officials say. So it's now thinking of joining the trek to Europe.

At the end of World War II, only three U.S. companies of any substantial size had foreign operations. Since then, 30 to 40 companies have worked out foreign arrangements—licensing, 50-50 ownership, wholly owned subsidiaries, or subcontracting. Companies representing half of U.S. machine tool capacity have worked some sort of foreign deal, Kraut estimates. He expects this to grow to 75% in a couple of years.

Kraut's own company, Giddings & Lewis, is expected to announce its own arrangement by the end of the month. Its Milwaukee neighbor, Kearney & Trecker, last year bought 50% of a British company it had previously licensed to make its tools.

• **Resurgence**—In the European market, U.S. tool builders have had to buck not only lower prices, but Europe's lack of dollars, the renaissance of the German, British, and French machine tool industries, and the narrowing gap between technical and productive skills of U.S. and foreign-built machines. The postwar foreign aid programs, which heaped up profitable overseas sales for U.S. makers, have also had a boomerang

effect. As one foreign tool builder says, "We ended up with new plants—nicer ones than yours."

But Europe's bustling economic recovery, its race to emulate U.S. production methods, should also generate orders for foreign affiliates of U.S. companies, help them to crack new markets. For example, Hufford Corp. of Los Angeles—a subsidiary of Siegler Corp.—the prime supplier of stretch-forming equipment to the U.S. aircraft industry, is eyeing in Europe a new market, the auto manufacturers. U.S. auto makers, geared to long production runs, prefer die-forming methods. Hufford thinks Europe's auto industry, split up among many companies producing relatively fewer cars apiece, may take to stretch-forming tools.

• **Reverse Trend**—Some companies plan to tap the low-cost skills of their foreign affiliates to help defend, or expand, their home markets. Clearing Machinery Corp. Div. of U.S. Industries, Chicago, is importing its own small lathe from England to meet the competition here of other foreign imports. It's a standard machine, smaller than Clearing makes here, and a quality product.

No U.S. tool builders seem anxious to import machines comparable to those they produce here. There seems to be a gentlemen's agreement on this, but there are industry rumors it may not hold up much longer. Hard-hit American Tool sells radial drills from its Amsterdam affiliate in Canada, but not here—Pres. Alter says he doesn't "want to put cobwebs" on his U.S. plant.

• **Tightening Up**—The import threat has stirred the U.S. industry into a general tightening up to meet the competition, but companies aren't all seeking quite the same answer. South Bend's Frushour, for example, sees a sales push to outsell the imports as the only way. Pres. William Dolle of Lodge & Shipley Co., Cincinnati lathe builder, says there's nothing to do but take a hard look at costs and see what it will take to make them competitive.

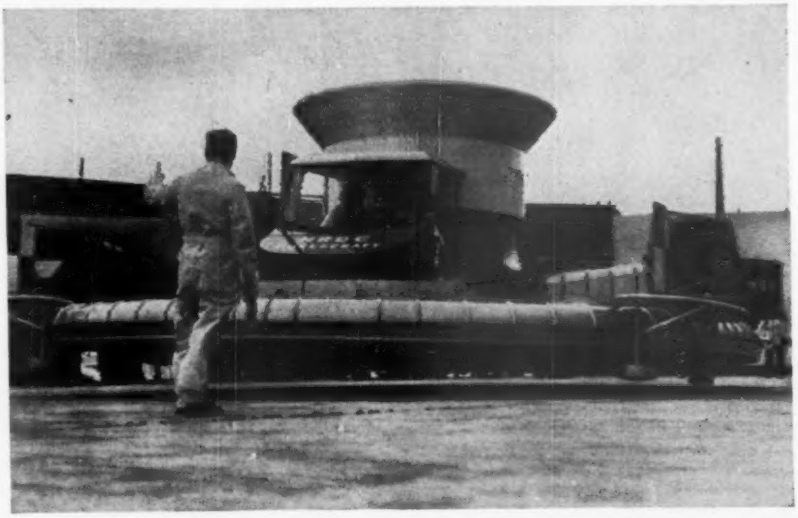
Heald Machine Co., Worcester, Mass., promises a new universal grinder with a $12,000 price tag—more in line with 1948 than 1959 levels.

Another company sees tools that can raise the users' productivity as the only way to keep a jump ahead of import competition—big U.S. machine tool buyers want the latest model, and that gives the domestic maker an edge in spite of price.

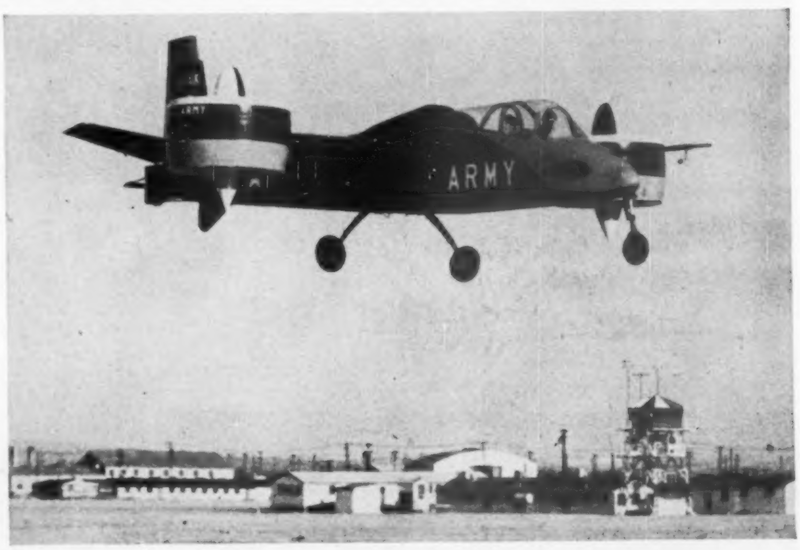
Clearing Machinery believes one key to success of foreign tools has been they offer a basic model adaptable to specific uses. So Clearing is emphasizing building block concepts that permit maximum flexibility. Its new lathe (BW—May30'59,p73) was built with this foreign competition in mind.

• **Prospect**—U.S. builders rely, too, on good will and sound reputation built up over the years. There's a hangover of distrust of foreign products from wartime and Korean experience, when foreign tools proved not so reliable and enduring as U.S. products. But even most of the skeptics will admit that over-all quality of foreign tools is climbing with great rapidity and "we don't have any corner on brains over here."

One hotly disputed point in the industry is whether the Europeans will ever give U.S. tool builders a run for their money in the "specials", the highly engineered machines that U.S. industry considers its particular preserve. Most agree that foreign makers can't yet compete on the bigger machines.



Ducted Fans Power Flying Saucer



. . . And Tilt-Wing VTOL Plane

Two of the newest craft to take to the air don't rely on jet engines or rockets. They ride on the power of ducted fans.

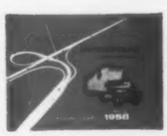
In Britain, Saunders-Roe's Hovercraft (top picture) doesn't fly very high. But the experimental 4-ton flying saucer can skim the water at a speed of 25 mph. on a cushion of air 15-in. thick blown up by a four-bladed axial fan mounted in the center. Eventually, its developers hope to increase the speed to from 70 mph. to 100 mph. They visualize the craft as a swift means of transportation over water, although the Hovercraft can skip over land as well.

In this country, Doak Aircraft is using ducted fans to power its new VTOL tilt-wing plane (lower picture). The plane last week successfully changed from vertical to horizontal flight in mid-air.

A bicycle for Johnny...

delivered personally by Interstate System

Big city service to a small town, illustrating Interstate's swift, dependable LTL service to even the smallest points on the map. We serve over 8,000 points in 26 states — with special emphasis on less-than-truckload shipments to small towns. If you have freight to move within our authority — a dozen automatic washers, assorted crates for an implement store or another bicycle for another Johnny — give us a call. We think we will be able to give you the kind of service you want. We are listed in the Yellow Pages.



ON REQUEST: *A profile of Interstate Motor Freight System, illustrating the facilities, the equipment and the service that make Interstate the "fastest growing motor freight system in America." Address Dept. B.*

68 TERMINALS IN 26 STATES

COAST-TO-COAST SERVICE

FAST, DEPENDABLE, SURE

INTERSTATE MOTOR FREIGHT SYSTEM

Grand Rapids, Michigan

MORE THAN A TRUCK LINE...A TRANSPORTATION SYSTEM

Propeller Making: Knowhow, Plus A

PROPELLER BLADE is ready to be checked against templates, which guide grinding, at Columbian Bronze shop.

PITCHOMETER also is used to give grinder fast check on how much metal must be removed to make blade conform to design.

GRINDING and polishing, the most important steps in shaping a propeller, require time and skilled hands.

DYNAMIC BALANCER gives propeller a fast spin to test its balance. The tool saves time over older methods.

us Artistry

John Masefield asked only for a tall ship and a star to steer her by. Today the builders of 40-knot submarines, 100,000-ton tankers, and 70-hp. outboards all ask for more powerful propellers.

For, just as the tall clipper had a limit set by the amount of sail a master could hang on her, so a ship designer has a limit on the amount of power that can be pushed out through a propeller.

• **Limiting Factor**—The limit is a little-understood phenomenon called cavitation. It shows up in bubbles—or cavities—that form on propeller blades when they turn at high speeds. It reduces efficiency and erodes blades (BW—Sep.6'58,p35).

So little is known about this that the designing and building of propellers remains more an art than a science (pictures). A submarine, crammed from stem to stern with sophisticated nuclear and electronic gear, moves only on the flair and artistry of men shaping metal.

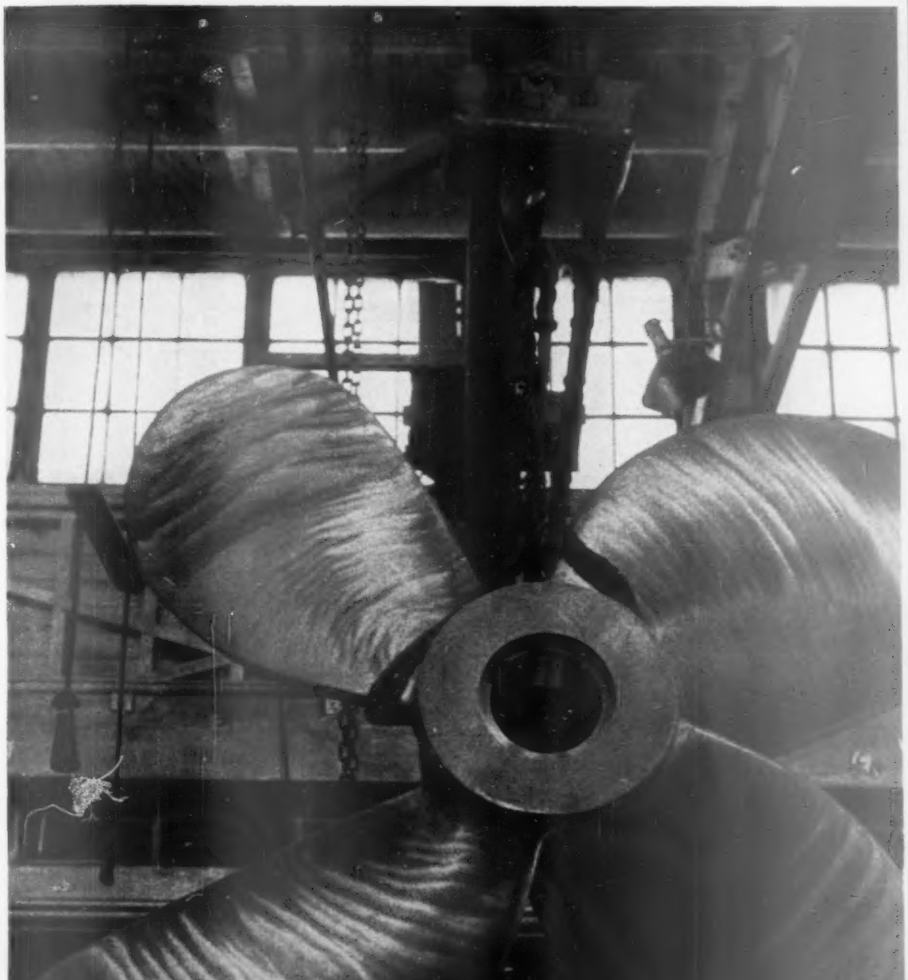
It may easily take five months to sculpt and polish a big ship's propeller. Columbian Bronze Corp., Bethlehem Steel, and Baldwin-Lima-Hamilton, the leading makers, all use roughly the same time-honored methods. Even in the little "wheels" for outboards—where Columbian and Michigan Wheel Co. are leaders—hand-casting and hand-polishing will be the standard way of doing business whenever top quality is wanted as far as anyone can see.

• **Job for Craftsmen**—It takes a craftsman with a special feel for the sweep of complex curves and the proper turn of a radius to shape a big propeller. Even making the templates—the guides that tell the grinder how close he is to the designer's specifications—takes as much as six weeks. Grinding the propeller to fit the templates can take a couple of months. In submarine propellers, which must be especially accurate to assure quiet running, the tolerance is .03 of an inch.

The craft is changing. Columbian, in its new Freeport (Long Island) shop, is using a new German-built Pitchometer to check dimensional accuracy and a German Dynamic Balancer, which spins the propeller at 240 rpm. to check its balance. Both cut time.

• **New Alloys**—New alloys are coming in. Nickel-aluminum bronzes, although expensive, are rugged, will handle the power loads of, say, a destroyer. Stainless steel is being used in inland waters, where it cuts corrosion. But 90% of all propellers, not counting outboards, still are made of the conventional manganese bronze.

Nylon and other molded plastics may



FINISHED PROPELLER is ready to be shipped out of Columbian's plant.

how
esign.

someday eliminate hand-finishing of small propellers, but they're still very much experimental.

But propeller building, at least for big ships, is likely to remain an art. For one thing, each ship is individual—with its own hull lines, propulsion plant design, and service requirements. So every propeller is designed from scratch—and that puts automation a long way into the watery future.

California Utility Plans Automated Power Units

The electric utility industry, traditionally somewhat wary of using new kinds of equipment in its generating stations, is wasting little time putting computers to work running its power stations. This week Southern California Edison announced that it planned to install two new computer-controlled power units in its Huntington Beach Station.

That makes Southern California Edison the second utility to make the decision to shoot for total automation in the last few months. Late last year, Louisiana Power & Light Co. decided to go whole hog for computer control (BW—Nov.22'58,p64) at its Little Gypsy Station, scheduled for completion sometime in 1961.

Southern California Edison's generating units will use General Electric digital computers to control their entire operation. Daystrom, Inc., is supplying the computers for Louisiana Power & Light's automatic plant at Little Gypsy.

The GE control systems for the Huntington Station will cost between $750,000 and $1-million each by the time they are installed. The cost of the power station additions probably will total somewhere in the neighborhood of $30-million a piece.

• **Automatic Control**—The computers—there will be one for each of the station's new generating units—will scan about 900 points in the boiler and turbine-generator system. The points, each representing an instrument, are scanned at the rate of 300 per sec. The computers automatically act on the information they gather to control about 250 different operations, such as valves and fuel controls, in the generating units.

The first turbine generator for the computer-controlled section of the Huntington Station—a 210,000-kw. General Electric unit—will be delivered in early 1960. The second unit, a Westinghouse turbo-generator, will arrive shortly after the GE unit. The two computer-controlled generators will raise the capacity of the Huntington Station to 810,000-kw. END

Rockwell Report

by W. F. ROCKWELL, JR.
President
Rockwell Manufacturing Company

ONE OF THE MOST SOBERING of the great number of shocking facts about traffic accidents is probably this: Nine out of every ten highway deaths are caused not by mechanical failure of the car, but by failure of the *driver*. Since human error is the cause of most traffic deaths, the only real preventive is better driver education. And the best time for that is when a boy or girl is learning to drive.

High school courses in driver education have proven their value. Records show that properly trained students have only half as many accidents in later years as do untrained drivers. Yet—because of the high cost of individual instruction with one teacher teaching one pupil at a time in a dual control car—driver education is offered today to only a fraction of eligible high school students.

To solve the problems of higher costs, teacher shortages, and large backlogs of eligible students, many high schools are using a device similar to the trainers used to teach aircraft pilots. It is called the Aetna Drivotrainer. *Where the Drivotrainer has been used, schools find they are able to provide better, more complete driver education to more students while reducing the per-pupil cost by almost one-third.*

The effectiveness of the Drivotrainer has been endorsed by school administrators, national education associations, national safety organizations, and now by most leading insurance companies. If your boy has taken an approved driver education course using the Drivotrainer, most insurance companies will grant you a 10 to 15% reduction in your insurance premium.

The Drivotrainer is made by our AVM Division. There is a satisfaction in being part of a program the ultimate value of which will be measured not in dollars earned, but in lives saved.

* * *

Employees of our Uniontown, Pa. plant (water meters, and liquid meters for industrial services) have again been awarded a leading insurance company's "large certificate" safety plaque. The plaque is presented to plants with a record of 250,000 consecutive man-hours and 12 consecutive months without a lost-time accident. The Uniontown plant now has a record of 1,000,000 man-hours and three years without a lost-time accident, which is rather remarkable in a plant using reasonably heavy machinery.

* * *

Acceptance of the newest addition to the Delta Metal Lathe line—the 10-inch lathe—has been gratifying not only in the industrial market and in the field of school shop instruction, but also in the home workshop market. To advanced metalworking hobbyists, this new lathe provides "industrial quality" precision and ruggedness at a price well within reach. The entire Delta Metal Lathe line is described in a new 20-page, four-color catalog.

* * *

It is estimated that over 60 per cent of the total electric generating capacity of the United States has been installed in the past ten years. One of the reasons for this rapid growth is the increasing use of electric power in plant mechanization. For example, hard-facing seats and disks of small valves at our Edward Valve Plant at East Chicago was formerly done by hand, with only a 5 hp. motor required to run a d.c. generator of a welding machine. Now an automatic method of hardfacing requires a 2,000 KW machine—but takes only seconds instead of minutes and provides a superior finish which cuts machining time. Extending this process to larger valves will require a 4,000 KW machine.

One of a series of informal reports on the operations and growth of the
ROCKWELL MANUFACTURING COMPANY
PITTSBURGH 8, PA.
for its customers, suppliers, employees, stockholders and other friends

NEW PRODUCTS

Light Bulbs Burn Bright With Iodine Inside

Keeping incandescent lamps shining as brightly as the day they were first plugged in has been an aim of lampmakers ever since Thomas Edison lit up his first flimsy carbon filament. Now General Electric researchers think they have licked a big part of the problem. Their solution is to add a bit of iodine to the gas inside the bulb.

• **How It Works**—The cause of the gradual dimout in electric light bulbs is the black layer of tungsten that is gradually built up on the inside of the glass bulb. The tungsten is boiled off the glowing filament and condenses on the cooler envelope. But if iodine vapor is present, the vaporized tungsten doesn't get a chance to travel to the glass—it combines chemically into tungsten iodine, which instead of flying off and blackening the bulb, tends to fall back on the hot filament. And when the tungsten-iodide gets close to the filament, it breaks down into tungsten and iodine. The tungsten goes back on the filament, and the iodine is free to start gathering wandering tungsten atoms again.

• **Applications**—The iodine cycle can't be applied to all light bulbs yet, says GE, and the only bulbs to get the treatment for some time will be the "Quartzline" models—thin tubes rated at 500 watts and 1,500 watts. These lights have long filaments strung down the center of a quartz tube only ⅜ in. in diameter, and have been subject to considerable blackening because the filament is so close to the glass.

The new iodine cycle lamps primarily are for industrial floodlighting purposes and GE does not expect them to be used in the home. Production quantities of the lamps will be available by fall, according to GE.

RCA Fits Out Lectern With Amplifier System

Portable lecterns with built-in amplifiers and speakers may help eliminate the bane of dinner speakers—the balky address system. Radio Corp. of America is introducing a compact, transistorized unit that sets up in about half a minute. In addition to microphone, amplifier, and speaker, the lectern contains its own power source so there is no hazard of foot-shufflers pulling the power cord to cut off the MC.

The lectern will boost a speaker's voice enough to reach an audience of about 600 in rooms with good acoustics. It weighs 36½-lb. and costs $370.50.

In Research

• • •

Rocket-Launched Balloon Is Planned To Test Density of High Atmosphere

Scientists soon may learn the exact density of the atmosphere 300 miles above the earth. In the coming months, they plan to eject an instrumented balloon from a two-stage rocket to provide them with more precise information on the conditions the first astronaut will have to face on his trip into space in the early '60s.

The balloon, an inflatable sphere, will carry instrumentation and telemetering equipment designed by Arthur D. Little, Inc., Cambridge, Mass.

The rocket-launching vehicle for the balloon will be the Sparrow, using solid propellant, mounted on top of a liquid-fueled Aerobee. About 60 miles above the earth's surface, after second-stage burnout, a timed signal will cause the burned out midsection to fold at a 90 degree angle, in order to reduce the rocket's spinning motion. Another signal will eject the 18-lb. balloon package through a door in the rocket's shell.

Little researchers have decided that the **simplest method of inflating the freed balloon is to allow ethyl alcohol to evaporate and inflate the balloon at low pressure.** The unpowered balloon then will follow closely the trajectory of its mother rocket up to a zenith of about 300 miles. During the 7-min. or 8-min. trip to full zenith, the balloon's measuring devices will record (and transmit back to earth) the amount of drag induced on its outer surfaces by rarefied gases in the upper atmosphere.

With the instruments recording the rate at which the balloon slows down on its upward trajectory, the scientists will be able to determine how dense the atmosphere is 300 miles above the earth.

• • •

Radio Signals Generated by the Sun Now Can Be Duplicated in the Lab

Radio signals generated and amplified by the sun are powerful enough to carry across the millions of miles to earth. Now, for the first time, a group of electrical engineers at the California Institute of Technology has succeeded in reproducing such signals in the laboratory.

The development gives scientists a new means to study the mechanics of nuclear fusion and offers a possible method for generating microwaves in bands of radio frequencies until now too high to produce coherently.

Heart of the process is the reproduction in a vacuum tube of a plasma equal in density to the sun's corona, but not equal to its 1-million F temperature (plasma is the so-called fourth state of matter that falls between a liquid and a gas.)

This is accomplished by introducing mercury gas into the vacuum tube and passing an electric current through it. A plasma is formed when the temperature of the mercury is raised to a point at which its atoms start coming apart and free electrons begin to dart about at high speeds.

The Cal Tech vacuum tubes used in this work are designed so that a continuous beam of electrons can be fired through them. In passing through the vibrating plasma, high frequency waves are amplified up to 1,000 times. In effect, the vibrations intensify the waves of electrons in the beam.

This apparently duplicates one of the ways by which radio signals are amplified by the sun and some of the so-called radio stars.

Previous attempts at synthesizing the mechanics of solar wave amplification failed, according to Cal Tech researchers, because electron waves were not sent through a plasma in high enough frequency bunches. Basic theory that this was one of the ways in which the sun produced the roaring hiss heard through radio telescopes has been known for some time, however.

The new wave amplification process should aid fusion research by helping scientists to discover badly needed information about plasma. For example, researchers now can shoot electron beams through different plasmas and observe how the plasmas change the beam. Or they can look for radio signals, generated when the beam interacts with the plasma in a related but different fashion.

The new process may also enable engineers to develop amplifiers and oscillators at higher frequencies than now possible. This could permit generation of higher frequencies than have previously been produced successfully—between the microwave and infrared radiation ranges.

• • •

Battelle Researchers Are Seeking Ways To Keep Wood From Shrinking, Swelling

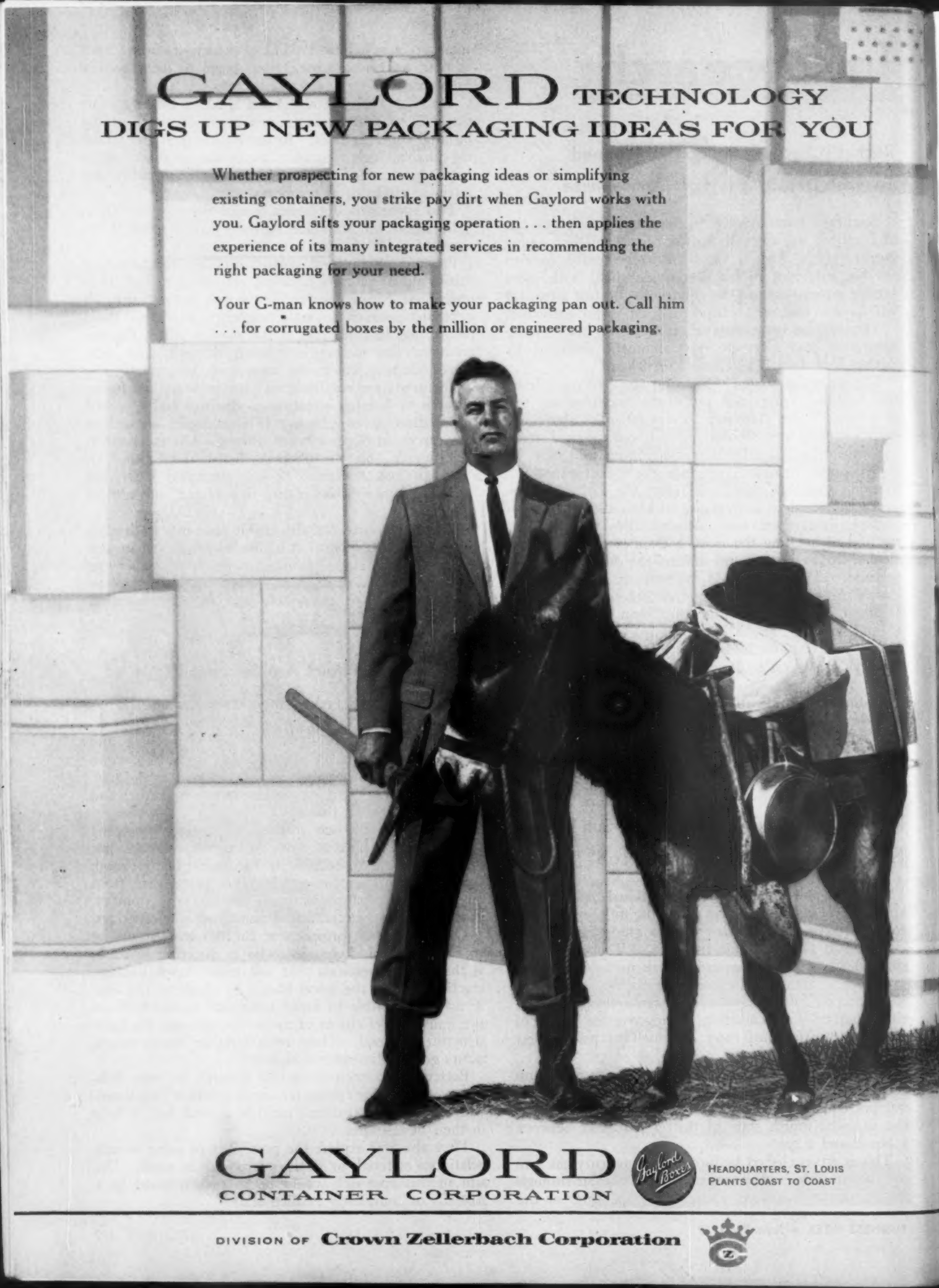
How to treat wood to discourage its swelling and shrinking is the subject of a one-year study just begun by the Battelle Memorial Institute, Columbus, Ohio. The program is being supported by seven lumber and wood product companies.

In looking for a new method of treating wood, the researchers will have to work within these limitations: It must not add appreciably to the weight of the wood; it must be inexpensive; and it must not detract from any of the principal properties of wood, such as strength, ease of working, acceptance of paint and other coatings.

One of the best prospects at the moment, according to Dr. Robert I. Leininger, who is directing research, is the use of chemicals that will cause "cross linking" reactions within the wood fiber. By chemical reaction, it may be possible to build molecular braces between the long parellel chains of molecules that are the basic structure of wood. These cross links or braces should assure greater dimensional stability.

Battelle spokesmen think that research on cross linking techniques for cotton fabrics to produce "wash-and-wear" qualities in textiles should be a good deal of help in their new studies.

They also will explore the possibility of using certain gelatinous materials to fill the micro-voids in wood. The aim in this approach would be to sustain wood in a partially or completely swollen state.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HENRY J. KAISER (standing) at "cement debate" accuses Dillinghams of underhanded tactics in opposing his cement plant.

WALTER F. DILLINGHAM (right) replying to Kaiser's charges, labels them as unbecoming of a "visitor" to the islands.

Challenge to Hawaiian Tycoon

Kaiser's decision to get into the islands' dredging business pits him against the giant Dillingham interests.

The rivalry between the two men who are probably the richest and most powerful residents of Hawaii has erupted again. This time, Henry J. Kaiser announced that he will promote his interests on the islands by going into the dredging business. This puts him in direct competition with Walter F. Dillingham.

In Hawaii, the name of Walter F. Dillingham carries just as much weight as that of Henry J. Kaiser.

The Dillingham family has been a power in Hawaii since the days of the monarchy, and Walter F. Dillingham has lived all his 84 years on the islands—much of which his companies have developed and even reclaimed from the sea. Dillingham dredges have created millions of dollars' worth of industrial, commercial, and residential property.

Walter F. Dillingham sits on the boards of Hawaii's key banks, financial and business institutions, and personally heads an empire that includes construction, railroading, trucking, landholding, and pier ownership.

• **Trails Cross**—Henry J. Kaiser, now 77, went to Hawaii to live five years ago. Since then, he has shaken the tourist and building businesses considerably with his aggressive, high-speed, and imaginative approaches. He started the Hawaiian Village Hotel development, built a hospital, and mapped out other ambitious projects.

Almost inevitably, the business trails of the two men began to cross. But there was no open rivalry until last May. Rather, there was a good bit of mutual interchange of business.

The Dillingham construction industries, for example, have been using Kaiser cement ever since Kaiser visited Hawaii before World War II, sized up the cement industry, and moved in with his Permanente Cement Co.—using its own shipping bottoms—and became sole supplier to the islands.

Kaiser's hotels and hospital were built with Dillingham crews subcontracted to drive the piles.

This year, a new combine of mainland U.S. and Hawaiian interests announced that Permanente would get competition of a rough sort. The group, including the Dillinghams, will build a plant to manufacture cement in the islands, using coral instead of limestone as a base.

Kaiser countered within the month by announcing that Permanente, too, would build a plant in the islands. But the Kaiser plan had one loose end: The area in which it would locate wasn't zoned for heavy industry.

• **Un-Cementing Relations**—The head-on collision came at a public meeting —the so-called cement debate—in May.

The Dillingham interests opposed rezoning, said they had plans to build a hotel in the same area, and that the cement plant would change the whole complexion of the community.

Kaiser appeared personally before a mass meeting of the residents and read a prepared statement accusing the Dillinghams of underhanded tactics, of using the hotel plan as a cover for their real interest in the rival cement plant. Many of his audience were native Hawaiians, many of limited means, all of them hopeful that the plant would bring new jobs to their area. As final bait, Kaiser promised to establish an emergency medical clinic in the area. Residents in the area now have to go nearly 30 miles for hospitalization.

• **Rebuttal**—Dillingham, in a rare public appearance, followed Kaiser to the microphone, spoke extemporaneously of Kaiser's slurs, and said he thought they were unbecoming of a "visitor" to the islands to cast against lifelong residents.

His son, Ben F. Dillingham, denied the allegation that the cement plant was a factor in their opposition to Kaiser, and said their hotel investment far outweighed the other and promised far more in the area's development.

But the meeting went on record as heavily in support of the Kaiser plant.

The Honolulu City Planning Commission was another matter. It ruled that it could not grant Kaiser's zoning request until it had received the results of a master plan study for the entire area—which would take at least a month. The delay order stands.

• **Next Blow**—Ten days later, however, Kaiser scored the next blow. He an-

nounced that he was buying dredging equipment to use in the development of a $350-million Honolulu suburb, Hawaii-Kai, and that the equipment would be available for other jobs in the area.

Kaiser didn't need to add that this would put him in direct competition with Hawaiian Dredging & Construction Co., key interest in the Dillingham empire, which has dominated the field in the islands about as completely as Kaiser had dominated the cement industry.

He did say, however, that he foresees that the growth of Hawaii in the years ahead will "call forth the unleashing of the American system of free enterprise and unfettered competition at its best."

Kaiser followed this up by announcing that he had acquired a new cement plant site a couple of miles from his first one and adjoining an existing quarry. He said that he would use site No. 1 for quarrying only, and asked an early hearing on both zoning problems.

"We've had competition before," was the first reaction from the Dillingham camp.

• **Competition**—The Kaiser-Dillingham feud introduces a new note in the island state. Before World War II, Hawaii was a relatively closely controlled business community, with the Big Five factoring houses at the center and the Dillingham interests regarded as a sixth and sometimes paramount center of business power.

Interlocking interests often tended to dim competition. Since the war, competitive forces have strengthened substantially as more and more mainland U. S. companies have set up business in the islands.

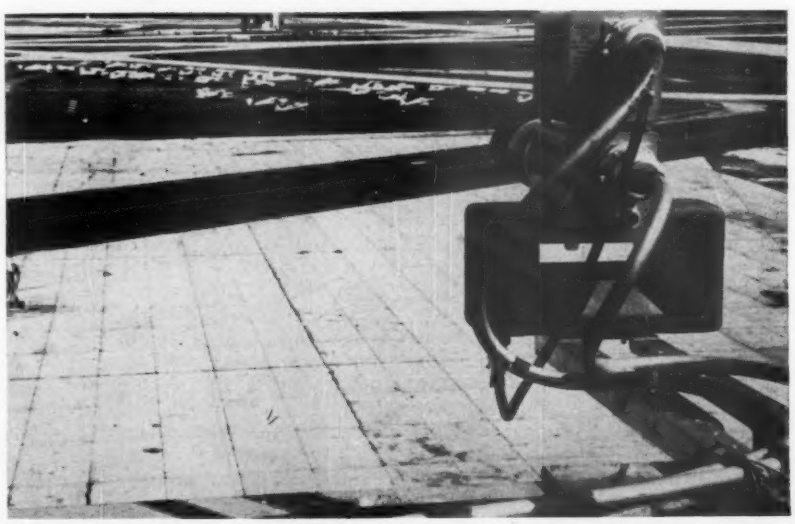
Although Dillingham operated effectively in the prewar "closed shop" atmosphere, his companies have been equally effective and have grown and prospered in the postwar "open shop" period.

Dillingham construction crews helped build the vast chain of Pacific naval air bases in World War II, since then have won big dredging awards on construction jobs at such places as Midway, and currently are engaged in work at Kuwait, Suez Canal, Lake Tahoe, and other far away points.

Dillingham interests are also building—with their own equipment and on their own land—a $25-million shopping center, scheduled to open in August. It will have as much store space as now exists in all of downtown Honolulu.

Walter F. Dillingham, head of the Dillingham clan, is a suave, astute, and aggressive businessman. Despite his age, he is still an active and important force on the islands.

Now, Kaiser has offered a direct challenge to the Dillinghams' position in both business and society.



Cameras Watch Every Corner of Airport

Wide-screen TV cameras give control tower men at the Atlantic City (N. J.) airport a panoramic view of runways and parking areas for planes, as well as a closeup of planes landing or taking off.

The top camera in the pair covers a 70-degree sector with its 25-mm. wide-angle lens; the lower camera has a 100-mm. telephoto lens for distance shots. Both cameras, 60 ft. above ground, are mounted on a pan-and-tilt head remotely controlled to turn full circle. Anamorphic lenses on both cameras produce the wide-screen effect.

These Scanoscope cameras were developed by Grimson Color, Inc., of New York.

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Steps Toward Real Debt Management

Congress now has before it the President's program to reform the federal government's debt management procedures. There are four separate but related measures involved: (1) a rise in the permanent debt ceiling; (2) elimination of the 4¼% interest rate ceiling now prevailing on marketable Treasury bonds; (3) a rise from 3¼% to 3¾% in the interest payable on savings bonds; and (4) deferral of tax settlements on any paper profits that an investor may make in exchange offerings.

These proposals make sense. What is more, they are desperately needed. For the restrictions now in force have hamstrung the Treasury in its debt management operations. And the longer Congress takes in its deliberations, the worse the Treasury's position threatens to be.

The request for a rise in the temporary debt ceiling, this time from $288-billion to $295-billion, has become an annual summer spectacle that features a contrite Administration humbling itself before a stern but eventually merciful Congress. Congress always grants an increase, but not before some of its members scold the executive branch for its alleged excesses and stress the virtues of thrift. These performances customarily ignore the fact that Congress itself has ratified all of the government's spending programs and, indeed, has initiated many of them.

This year, the President has had to ask for an increase in the permanent debt ceiling—from $285-billion to $288-billion. Given his strong antipathy to increased federal spending, it is plain that Eisenhower made this request only because he regarded it as absolutely essential. Yet Congress has already seized on it as an opportunity to further belabor and embarrass the White House.

There is something to be said for the ancient sport of pig-sticking, but the annual debates on the debt ceiling, with their pious expressions in favor of fiscal rectitude, are pointless.

A new tax study by the Brookings Institution points out that the debt ceiling has "jeopardized long-term defense policy, interfered with compensatory measures during the recession, hampered proper debt management, fostered budgetary subterfuge" and increased the cost of government financing. It recommends a flexible limit that would leave the Treasury free to carry out its debt management operations without the onerous restrictions that the ceiling now imposes.

If anything, the Administration's proposal for raising the ceiling is to be criticized for not going far enough. It aims only at temporary relief and not at a permanent solution.

The other Administration measures are more forthright. There is, of course, no panacea in the request for a rise in interest rates on savings bonds or the elimination of the ceiling on long-term securities. Nor will the proposal to let investors put through exchanges of an old Treasury issue for a new one without having to show immediate tax gains or losses raise any new money. But these are attempts to face up to reality, and a rather unpleasant reality at that.

The crucial proposal concerns the ceiling on marketable bonds. At present, outstanding issues sell well above the 4¼% limit, which means that the Treasury is frozen out of the long market. It must concentrate on short-term issues, which can lead to a rise in bank credit that is itself inflationary.

Thus, the Treasury's debt managers have been completely frustrated. They are unable to achieve a stretchout of the debt by selling more issues to non-bank investors. And they have had to pay high interest rates for their short-term borrowings, which is an added burden on every taxpayer.

This unhappy situation is the direct result of the Administration's policy of relying on "orthodox" monetary measures—high interest rates and tight money—as the primary means of preventing inflation. The effectiveness of that policy is open to question. But if it is to be official policy, then the Treasury must have enough elbow room in debt management to adapt to it. For unless the Treasury can do its financing in a noninflationary way, we face the prospect of both tighter money and more inflationary pressure on the economy.

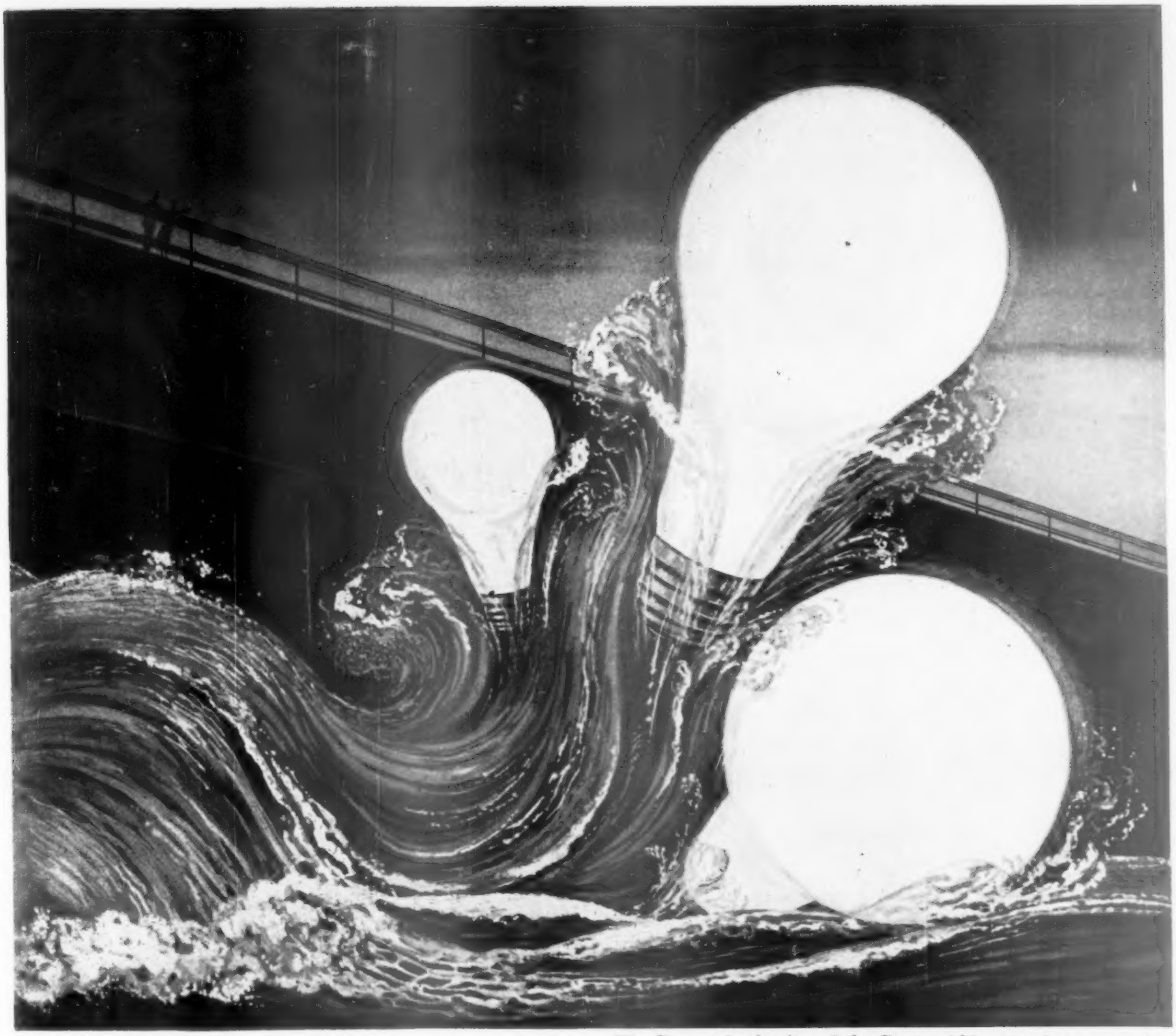
The President's message meets this problem squarely. His proposals would give the debt managers more freedom to conduct their debt management operations in a way that will back up the Federal Reserve's monetary policy rather than frustrate it.

The Egg and Us

Starting this week, the Dept. of Agriculture is breaking open a new price support program for eggs. Each Tuesday, growers will offer frozen eggs at given prices, and by the next Friday USDA presumably will accept a quantity large enough to put a floor under the market.

Just how many eggs USDA will add to its already loaded basket (15-million lb. of dried eggs costing $18-million since last October) isn't known. But the principle's there. As usual, it is, bluntly, more federal subsidies.

And, as usual, it's the consumer who pays. Twice: in higher food prices and in the taxes that provide the money to create those higher prices. One can sympathize with the bankrupt Jersey farmer who guessed wrong on the egg market. But not with an anachronistic farm policy that makes the public pay year after year for his mistake.



The Power Authority of the State of New York turns water pressure into electricity with the help of Shell Research.

Watts up at the St. Lawrence

SURGING through the world's second largest hydroelectric power plant, the St. Lawrence River will soon be producing 1.8 million kilowatts of low-cost electricity for the U. S. and Canada.

This electricity, coming from turbine generators embedded deep in the new St. Lawrence Power Dam, will serve farms, factories and homes. Only the most precise lubrication, however, will keep the 2,000,000-pound turbine rotors whirling trouble-free. A product of Shell Research was selected to help keep trouble away.

Shell Turbo® Oil was chosen for its ability to cool, resist rust and avoid foaming, plus its ability to protect bearings and shafts during the critical start-up period. These qualities assure economical operation for many years to come.

Developing premium lubricants that safeguard turbines over longer periods of time is another example of the way Shell Research works to assure you of better products, more for your money, wherever you see the Shell name and trademark.

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